

**Kwame Nkrumah University of Science and Technology, Kumasi**

**COLLEGE OF HUMANITIES AND SOCIAL SCIENCE**

**SCHOOL OF BUSINESS**

**THE IMPACT OF OUTSOURCING REVENUE COLLECTION ON THE  
FINANCIAL POSITION OF MMDAs IN ASHANTI REGION**

**BY**

**DEBORAH OKRAH**

**AUGUST, 2016**



**Kwame Nkrumah University of Science and Technology, Kumasi**

**COLLEGE OF HUMANITIES AND SOCIAL SCIENCE**

**SCHOOL OF BUSINESS**

**THE IMPACT OF OUTSOURCING REVENUE COLLECTION ON THE  
FINANCIAL POSITION OF MMDAs IN ASHANTI REGION**

**DEBORAH OKRAH**

**PG2145014**

**A THESIS SUBMITTED TO THE DEPARTMENT OF MARKETING AND  
CORPORATE STRATEGY, COLLEGE OF HUMANITIES IN SOCIAL  
SCIENCE IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR  
DEGREE OF MASTERS OF BUSINESS ADMINISTRATION  
(STRATEGIC MANAGEMENT)**

**AUGUST, 2016**

## DECLARATION

I, **DEBORAH OKRAH**, do hereby declare that except for references to studies of other authors, which have been acknowledged, this research work, **THE IMPACT OF OUTSOURCING REVENUE COLLECTION ON THE FINANCIAL POSITION OF MMDAS IN GHANA**, is the result of my own research efforts towards a Masters Degree in Business Administration and has not been presented elsewhere for the award of an Academic Certificate.

DEBORAH OKRAH

.....

.....

PG 2145014

Signature

Date

Certified by

DR. BYLON ABEIKU. BAMFO

.....

.....

(Supervisor)

Signature

Date

DR. OWUSU ANSAH

.....

.....

Head of Dept. Name

Signature

Date

## **ACKNOWLEDGEMENT**

My gratitude goes to the Almighty God for His grace and mercies during the course of this study.

Special thanks to my family and friends.

More specifically, my greatest acknowledgement goes to my supervisor, Dr. Bylon Abeiku Bamfo, Lecturer, Kwame Nkrumah University of Science and Technology, School of Business, who supervised this special study. His contribution to this work is enormous, especially in the areas of providing guidelines and assistance in making this research work a success.

Moreso, the co-operation of officials of Kumasi Metropolitan, Obuasi Municipal, Ejisu Municipal, and Bosome Freho District Assemblies is much appreciated

Last but not least, my profound gratitude goes to the authors of the books, articles and journals that have been used in the study.

## **DEDICATION**

This work is dedicated to my husband, Bright Nana Odoom and my children Aseda ,Nana Kwadjo and Nhyiraba Nyarko whom I was pregnant with during the conduct of the study

## **ABSTACT**

Outsourcing has become an important approach to generate value - when products or services are produced more effectively and efficiently by outside suppliers. This study identified; the reasons why MMDAs outsource revenue collection, the effectiveness of revenue collection agents, the effects of outsourcing revenue collection and the challenges associated with outsourcing revenue collection. Purposive sampling was adopted in selecting three (3) case study organizations whilst convenience sampling was also adopted to select one hundred respondents in Ashanti Region-Ghana. It came to light that the main reasons why MMDAs relied on private revenue collection agents were: difficulty in collecting revenues, the inability of MMDA revenue collection staff to widen their scope of reach or properly track areas of economic activities and poor record keeping. The study also revealed that the impact of the private revenue collectors on the volumes of revenues generated by the MMDAs is positive and significant. Revenue collection outsourcing help MMDAs to concentrate on the core organizational activities, assist in improved service delivery and also cut cost on human resource. Major risks encountered by MMDA's in the outsourcing transaction are fraud, robbery and theft cases. From the perspective of the private revenue collectors, lack of revenue collection equipment, high operational costs and personnel shortage are challenges identified. Based on the research findings, the following recommendations are offered; that MMDAs select the best contractors and partners for the revenue collection activities, that MMDAs monitor and assess performance during and at the end of the contract for necessary review, termination ire engagement, and that MMDAs state their expectations of the outsourcing agreement clearly.

## TABLE OF CONTENTS

CONTENT	PAGE
DECLARATION .....	ii
ACKNOWLEDGEMENT .....	iii
DEDICATION .....	iv
ABSTRACT .....	v
TABLE OF CONTENTS.....	vi
LIST OF TABLES.....	x
LIST OF FIGURES .....	xi
LIST OF ACRONYMS .....	xii
<b>CHAPTER ONE .....</b>	<b>1</b>
<b>GENERAL INTRODUCTION.....</b>	<b>1</b>
1.1 Introduction.....	1
1.2 Background of the Study .....	1
1.2 Problem Statement.....	4
1.3. Objectives of the Study.....	5
1.4 Research Questions.....	5
1.5 Significance of the Study.....	6
1.6 The Scope of the Study.....	7
1.7 Overview of Research Methods.....	7
1.8 Limitation of the Study .....	7
1.9 Organization of the Study .....	8



<b>CHAPTER TWO .....</b>	<b>9</b>
<b>LITERATURE REVIEW .....</b>	<b>9</b>
2.1 Introduction.....	9
2.2 Concept of Outsourcing and Revenue Collection.....	9
2.3 Outsourcing; Benefits and Challenges.....	11
2.4 Decentralization and the Structure of the Local Government System.....	16
2.4.1 Local Governments and Revenue Collection/Mobilization.....	17
2.4.2 Revenue Collection by the Metropolitan, Municipal and District Assemblies (MMDAs) .....	21
2.5 Problems in Revenue Mobilization.....	24
2.6 Requirement(s) For Effective and Efficient Revenue Collection .....	27
2.7 Revenue Outsourcing.....	29
2.8 Perspectives of Financial Performance.....	31
<b>CHAPTER THREE .....</b>	<b>35</b>
<b>RESEARCH METHODOLOGY .....</b>	<b>35</b>
3.1 Introduction.....	35
3.2 Research Paradigms .....	35
3.3 Research Design.....	36
3.4 Sampling procedures.....	37
3.4.1 The population and sample .....	37
3.5 Data collection methods.....	39
3.6 Data Analysis .....	40
3.7 Quality of the research.....	40

3.8 Research ethics and limitations.....	41
<b>CHAPTER FOUR.....</b>	<b>43</b>
<b>RESULTS AND DISCUSSION OF FINDINGS .....</b>	<b>43</b>
4.1 Introduction.....	43
4.2 Demographic Characteristics of the Respondents .....	43
4.2.1 Gender of Respondents.....	44
4.2.2 Educational level of Respondents.....	44
4.2.3 Respondents' Number of Years in the Assembly.....	45
4.3 Why MMDAs Outsource Revenue Collection .....	45
4.3.1 Revenue Items Outsourced .....	46
4.5 Effectiveness of Revenue Collection Agents.....	48
4.5.1 Kumasi Metropolitan Assembly .....	49
4.5.2 Obuasi Municipality.....	49
4.5.3 Bosome Freho .....	51
4.6 Risks and Challenges Associated With Outsourcing Revenue Collection Function.....	52
<b>4.7 Impact of Outsourcing Revenue Collection on the Financial Performance of MMDAs...54</b>	
4.6.2 Regression Analysis.....	59
<b>CHAPTER FIVE .....</b>	<b>62</b>
<b>SUMMARY, CONCLUSION AND RECOMMENDATIONS .....</b>	<b>62</b>
5.1 Introduction.....	62
5.2 Summary of findings.....	62
5.2.1 Reasons Why MMDAS Outsource Revenue Collection .....	62
5.2.2 Effectiveness of Revenue Collection Agents.....	63

5.2.3 Risks and Challenges Associated With Outsourcing Revenue Collection Function.....	64
5.2.4 Impact of Outsourcing Revenue Collection on the Financial Performance of MMDAs.....	64
5.3 Conclusion .....	65
5.4. Recommendations.....	66
<b>REFERENCE LIST .....</b>	<b>68</b>
<b>APPENDIX 1 .....</b>	<b>73</b>

## **LIST OF TABLES**

Table 4.1: Demographic characteristics of respondents	44
Table 4.2: MMDA'S reasons for outsourcing	45
Table 4.3. Standard Revenue Items outsourced by MMDAs	47
Table 4.4: Would you consider the items listed as non-core?	47
Table 4.5: Revenue Collection Agents	48
Table 4.6: Volume of the revenue collected; 2008-2012	49
Table 4.7: Volume of the revenue collected; 2008-2012	49
Table 4.8: Volume of the revenue collected; 2008-2012	51
Table 4.9 Effects of Outsourcing on MMDAs Financial Performance	59

## **LIST OF FIGURES**

Figure 4.1: Trend in revenue collection of private agents; 2008-2012	50
Figure 4.2: Trend in revenue collection of private agents; 2008-2012	51
Figure 4.3: Risks Encountered By MMDAs in Revenue Collection Outsourcing	52
Figure 4.4: Challenges Encountered By Third Party Revenue Collectors	53
Figure 4.5: Has Revenue Collection Outsourcing Benefited the Entity?	54
Figure 4.6: Revenue Collection Outsourcing Has Improved Operational Performance	55
Figure 4.7: Revenue Collection Outsourcing Has Led to Optimal usage of knowledge, equipment and experience of third party	56
Figure 4.8: Revenue Collection Outsourcing Has Led to Increased Geographic Coverage	57
Figure 4.9: Revenue Collection Outsourcing Has Led to Cost Reduction	58

## **LIST OF ACRONYMS**

DACF	District Assemblies Common Fund
DDF	District Development Facility
DP	Donor Partners
EBS-RCM	Electronic Banking System of Revenue Cycle Management
FOAT	Functional Organizational Assessment Tool
GCRs	General Counterfoil Receipts
IGF	Internal Generated Fund
ICT	Information Communication Technology
KMA	Kumasi Metropolitan Assembly
MMA	Metropolitan and Municipal Assemblies
MMDAs	Metropolitan Municipal and District Assemblies
MSSPs	Managed Security Service Providers
MPs	Members of Parliament
OMA	Obuasi Municipal Assembly
RBV	Resource Based View
RCC	Regional Co-ordinating Council
UDG	Urban Development Grant
UN	United Nations

# **CHAPTER ONE**

## **GENERAL INTRODUCTION**

### **1.1 Introduction**

This is the opening chapter of the study. This chapter covers the background of the study, problem statement, objectives of the study, research questions, significance of the study, scope of the study and organization of the thesis.

### **1.2 Background of the Study**

In today's world of regularly expanding rivalry, business organizations are compelled to search for better approaches to create esteem. The world has grasped the marvel of outsourcing and elements have enhanced its standards to help them venture into different markets (Bender, 1999). Vital administration and outsourcing of advancement is its boondocks (Quinn, 2000).

Outsourcing has turned into a significant business approach, whereby an upper hand might be picked up when items or administrations are created all the more successfully and productively by outside suppliers. It is an assertion in which one organization contracts- out a piece of their current inside action to another organization (Mc Carthy& Anagnostou, 2003). The outsourcing practice is a vital device utilized crosswise over all enterprises to accomplish different destinations with a definitive plan to improve the focus of the business sector. (Greaver, 1999). The though advanced by Prahalad and (1990) and numerous others is that associations ought to characterize the ranges basic to their prosperity, commit most extreme assets to those territories, and outsource everything else.

Firm capabilities and assets are a firm-level marker of what can and cannot be helpfully outsourced (Barney, 1999). The asset-based perspective (RBV) predicts that organizations with a rich fitness base that can be sent for undertaking a given action may disguise that action. For those organizations that are less all around arranged inside, outsourcing is more practical. Along these lines having numerous valuable abilities for a movement diminishes that probability the activity will be outsourced. (Barney, 1999).

Different contentions have been accommodated such a positive relationship amongst outsourcing and execution. Since outsourcing makes firm more deft, it permits firms to progressively concentrate on its central exercises. (Domberger, 1998). Outsourcing likewise brings down generation costs in light of the fact that specific suppliers are utilized (Hendry, 1995; Kotabe, 1998) and it expands a business's key adaptability to manage mechanical or volume variances.

It has been set that outsourcing gives certain force that is not accessible inside an association's interior offices. This forces can have numerous measurements; economies of scale, procedure aptitude. Access to capital, access to costly innovation, and others. The mix of these measurements make cost reserve funds characteristic in outsourcing. In light of the fact that outsourcing supplier (association having some expertise in a specific business capacity) has the economy of scale, the skill and the capital interests in driving innovation to play out the same undertakings more productively and viably than the interior divisions of the outsourcing 'purchaser', (Bendor-Samuel 1998).

The body of evidence against outsourcing depends on contentions, for example, loss of administrative control, diminishment in adaptability and expanded expenses. Case in



point focused outsourcing requires an exclusive expectation of supplier administration to maintain a strategic distance from the pitfalls of exchanging basic usefulness, or turning out to be excessively reliant on the supplier for everyday execution of fundamental business capacities. Furthermore, outsourcing can produce new dangers, for example, the loss of basic aptitudes, building up the wrong abilities, the loss of cross-utilitarian abilities, and loss of control over suppliers (Domberger, 1998; Quinn & Hilmer, 1994).

In Ghana, Metropolitan Municipal and District Assemblies (MMDAs) are partners to the central government in the national development and as partners, they are required to generate enough Internal Generated Funds to enable them carry out development projects. The revenue generated internally is used to support the statutory District Assemblies Common Fund to provide infrastructural development and services to the people. It is the responsibility of MMDAs to provide municipal and other services as well as maintaining law and order, all which require enough financial capital, thus internal revenue mobilization is therefore paramount (Adu-Gyamfi, 2014).

Funding system for local governments is supposed to combine local government internally generated funds with transfers from the Central Government. While allocations from the Central Government are very important, for fiscal decentralization to be effective and sustainable, and for local governments to be able to provide effectively for their areas, there is general agreement that local governments have to be fiscally independent and less dependent on Central Government finances (DACF, 2014). Internally Generated Revenue (IGR) is the revenue the local government generates within the area of its jurisdiction. The extent to which a local government can go in accomplishing its goals will largely depend on its IGR strength (Olubukunola, 2011).

Outsourced revenue collection generally implies lower administrative costs for local government authorities by shifting the collection cost to the private sector rather than utilizing government employees for the same purpose. Furthermore, due to the seasonal aspect of some revenue sources, a private agent or market association has much more flexibility in labour inputs, thus reducing the operations costs of revenue collection. In outsourcing however, chances are that some agents may not comply with their contract terms, that is, either by not submitting the revenues they had collected, or by submitting less money. Also some agents might tend to embezzle and disappear with the revenues collected.

## **1.2 Problem Statement**

Some previous studies have identified mixed results of outsourcing vis-à-vis performance. In their study Fjeldstad, et al.(2009) indicated that outsourcing does not offer a quick-fix either to increase local revenue, or to reduce tax administration problems in local government authorities. They further stated that outsourcing has increased collections made, and made revenue flows more predictable for some units, while other units experienced huge problems with corruption. Outsourcing decisions should not be made without any indications of future profitability. Instead, the costs, benefits, and risks of the outsourcing decision should be comprehensively assessed both ex ante and ex post the outsourcing implementation. Rushing with outsourcing can lead to back-sourcing, which means reversing the outsourcing decision.

In recent years, many local government authorities in Ghana in a bid to improve revenue generation for accelerated development have engaged private companies in the collection

of revenue. This study examines the impact of outsourcing revenue collection on the financial position of metropolitan, Municipal and District assemblies (MMDAs). It analyses the constraints and opportunities for using private contractors in revenue collection as compared to local government revenue collectors.

### **1.3. Objectives of the Study**

The general objective of the study is to investigate the impact of outsourcing revenue collection on the financial performance of selected MMDAs in Ashanti Region. The research is also guided by the following specific research objectives;

1. To identify the reasons why MMDAs outsource revenue collection to Private Companies.
2. To ascertain the effectiveness of Private Companies in revenue collection for MMDAs.
3. To find out the challenges associated with outsourcing revenue collection.
4. To ascertain the impact of outsourcing revenue collection on the financial performance of MMDAs in the Ashanti Region.

### **1.4 Research Questions**

In order to achieve the objectives set for the study, the following research questions were posed to respondents:

1. What are the reasons why MMDAs outsource revenue collection to private agents?
2. Are revenue collection agents effective?

3. What challenges are associated with outsourcing revenue collection to private agents?
4. What are the effects of outsourcing revenue collection on performance of MMDAs?

### **1.5 Significance of the Study**

Revenue mobilization is a key factor for accelerated economic development of MMMDAs. Over 20years of the decentralization programme through the local government system there have been a number of efforts to improve the capacities of Assemblies for Internally Generated Funds.

Kumasi Metropolitan Assembly, Obuasi Metropolitan Assembly and Bosome Freno have over the years engaged and disengaged several private companies in the collection of their various revenue including property rate, on-street parking fees, business operation license, outdoor advertising fees and others. This study is important in highlighting effect of outsourcing revenue collection on the financial performance of these Assemblies.

It will guide MMDAs in reviewing the performance of private revenue collections companies to ensure effective revenue mobilization, whilst reducing leakages, improving productivity and reducing cost associated with the collection of revenue. The study would also serve as guide other MMDAs which desire to outsource revenue collection to make informed decisions. The study is vital given the fact that it would increase knowledge and serve as a guide to future researchers on the subject matter. The study will also provide researchers a better perspective in understanding the concept of

outsourcing revenue collection amongst MMDA's whilst giving them an opportunity to assess the issue in an applied environment.

### **1.6 The Scope of the Study**

This study is centered on the impact of outsourcing revenue collection on the financial performance of MMDAs in Ashanti Region with focus on the Kumasi Metropolitan Assembly (KMA), Obuasi Metropolitan Assembly and Bosome Freho District Assembly. The Study examined the gains and challenges associated with outsourcing revenue collection in the selected Assemblies.

### **1.7 Overview of Research Methods**

Convenience and purposive sampling technique was deemed appropriate for the study. The study employed the use of questionnaires to collect primary data. The study sampled staff the such as Finance Officers, Budget Officers, Directors, Revenue Heads, who relate well with the subject matter. In addition, private revenue collection companies were contacted to solicit information on some constraints they face in performing the revenue collection function. It also relied on secondary sources of information such as the financial Statements, performance Review Reports and others.

### **1.8 Limitation of the Study**

The study was limited to three assemblies instead of the proposed ten MMDAs due to time constraints. Information sourcing was a challenge since most of the information was classified. The Private Revenue Collection Companies were reluctant to divulge information for fear of industrial espionage.

## **1.9 Organization of the Study**

The study is divided into Five Chapters. The First Chapter, which is the introduction discuss the background of the study, statement of research problem, the research objectives, the research question, significance of the study, scope of study and overview of research method. The Chapter Two deals with literature review on the concept and theory of outsourcing, empirical issue of outsourcing revenue collections, the impact of outsourcing of revenue collections on local government institutions. Chapter three focuses on the materials and methods which include the profile of organizations, research design, study population, sampling technique, method of data collection and analysis. Chapter four covers the results and discussion of research findings while chapter five deals with the summary, conclusion and recommendations of the study.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter seeks to provide an overview as well as summarize and evaluate current state of knowledge about existing literature by researchers and accredited scholars related to the topic under study. The chapter reviews the concept of outsourcing, local authorities and revenue collection agents as well as firm performance.

#### **2.2 Concept of Outsourcing and Revenue Collection**

Organizations face intense competitive pressures due to factors like technological change and globalization. As a way to address these concerns, organization and types are increasingly outsourcing their activities by shifting what they traditionally handle in-house to external suppliers.

Outsourcing is an understanding in which one organization contracts-out a piece of their current inside movement to another organization. (McCarthy & Anagnostou, 2003). As of late, outsourcing has been one of the few business ideas that has seen numerous and varied definitions throughout the years by numerous creators in the field of study. These creators have endeavored to characterize outsourcing as a business process relying upon their individual points of view. Baily et al (2005) characterizes outsourcing as the procedure of sub letting the fringe capabilities. Despite the fact that imperative, it permits them to concentrate on their central skills. It is worried with the outside arrangement of useful action, and in this way its choices are key in nature.

As indicated by Overby (2007), 'outsourcing' is the sub-contracting of an organization's central capabilities, for example, item or administration plans of an assembling organization to an outsider business. In the light of this definition, outsourcing includes for the most part, two gatherings; the organization and the outsourced business partner. What has gotten to be evident from the definition above is that, the elements of associations might be grouped into central or non central. Central capacities are the exercises that gives business their personality and not ought to be outsourced. Non-core functions then again, are those exercises that are fringe to the company. These are the activities that could be outsourced to outsiders.

In the perspective of Van Waele (2010), the term outsourcing is seen as the exchange of business processes that were beforehand undertaken in house to an outsider. Axelsson & Wynstra (2002), characterize outsourcing as a choice and consequent exchange process by which exercises that constitute a capacity, that prior have been completed inside the organization are rather acquired from an outside supplier. Essentially outsourcing addresses the issue whether a firm should make or buy intermediate inputs; an issue that has a long tradition in economics, dating back to the seminal work by Coase (1937) on the boundaries of a firm. Since then, a large body of literature has been concerned with analyzing the determinants of this "make-or-buy decision", focusing on the role of incomplete contracts, specific assets and transactions costs.

Akin to the outsourcing process is the use of private debt collectors to collect revenue. This while novel in the modern era, is not entirely foreign to the United States for instance. The early history of the United States includes the use of "collectors of internal



revenue” to collect tariffs and excise taxes on distilled spirits. These collectors were a class of agents authorized in 1798 who received a percentage of the money collected. Then, the use of private debt collectors to collect government receivables was a practice applied in other government departments. In 1966, Congress passed the first legislation allowing for use of private debt collectors by the federal government when it enacted the Federal Claims Collection Act. (Resnick, 2005).

Firm capabilities and resources are a firm-level indicator of what can and cannot conveniently be outsourced (Barney, 1999). The asset-based view (ABV) predicts that organizations with a rich fitness base that can be conveyed for undertaking a given activity may disguise that action. For those organizations that are less well disposed internally, outsourcing is more reasonable. In this manner having numerous helpful capacities for a movement decreases the probability the action will be outsourced (Barney, 1999). The most important correlation will decided the quality of firms capabilities is with potential suppliers, not with contending firms.

### **2.3 Outsourcing; Benefits and Challenges**

The sudden swing for the adoption of outsourcing as a strategic business strategy by organizations all over the world gives an indication that there is something positive in outsourcing functions and procedures to outsiders. It is additionally exceptionally clear that there are issues and dangers connected with outsourcing.

As per Abraham and Taylor (1993) recognised three purposes for outsourcing: (I) reserve funds on pay and advantage instalments, (II) exchange of interest instability to the

outside contractual worker, and (III) access to particular abilities and information sources that the association cannot itself have.

Additionally, Kakabadse and Kakabadse (2000) reported that the fundamental explanations behind outsourcing are that; to start with first, more prominent specialization in the arrangement of administrations, as outsourcing permits economies of scale and the life span of interest for the movement, second, access to aptitudes, the competency and center of potential suppliers and topographical scope is expanded, third, changes in quality through advancement and the improvement of new administration items, can prompt new requests. The cost of outsourcing is not only determined by the price of the bought-in components, but also by transaction costs due to transport and incomplete contracting costs, and the possible implications of asset specificity for supplier and/or customer.

As posited by Lyson and Gillingham (2003), the fundamental advantages recognized by organizations that embrace outsourcing are the liberating of administration to focus on central business operations. In any case, there are different gains which are; access to world class abilities, enhance the hierarchical center; and make capital assets accessible.

As set by Basu and Wright (2008), a specific favourable position of outsourcing is income, adaptability and discharging key administrative assets. They additionally distinguished cost investment funds as the essential advantages of outsourcing. Different bonuses include time zone contrasts empowering 24 hours of action and access to more eager, all round qualified specialists to handle exhausting occupations.

A few advantages that could accumulate to associations that embrace the outsourcing methodology as per Van Weele (2010) are; Freeing up of money: speculation can be focused on central exercises, Optimal utilization of information , gear and experience of outsider, Increase adaptability: variances in the workload can be all the more effortlessly to retain, Outsourcing prompts less demanding and more engaged essential procedures in the association and in conclusion, input through an autonomous gathering's perspective which decreases the dangers of contemplative personal limitation in business.

As the point when the outsourcing process works, as espoused by Jackson, et al., (2001), it offers organizations convincing vital and money related favourable circumstances, including lower costs, more noteworthy adaptability, upgraded skills, more prominent control and flexibility to concentrate on central business capacities.

They proffered the following as advantages of outsourcing;

First, Cost Savings: savings typically result because the outsourcing supplier can access a cheaper, more flexible work force and the latest, most efficient technology.

Second. Technology: some suppliers may have proprietary access to technology or other intellectual property to which the company would not otherwise have access. This technology may improve operational reliability, productivity, efficiency, and the long-term total cost structure.

Third, Specialization/Focus: Focus frees up internal resources to concentrate on activities in which the organization has distinctive capabilities, scale, or experience. As a result, the organization can exploit relative advantage to maximize total value while allowing others to product supportive goods and services.

Four, Flexibility: Using outside suppliers can sometimes improve the scalability of a company's production capacity at a far lower cost. Outsourcing can enhance functional flexibility, that is, labour can be redeployed to cover new work tasks.

Although outsourcing seems to be beneficial to organizations which practiced it, it is important to state that there are equally problems, challenges and risks associated with it which if not properly managed may prevent the organization from reaping the intended benefits therein.

According to Reilly and Tamkin (cited in Lyson and Gillingham, 2003), a principal objection to outsourcing is the possible loss of competitive advantage, particularly in the loss of skills and expertise of staff, insufficient internal investments and the passing of knowledge and expertise to suppliers who may be able to seize the initiative.

Moreover, Lyson and Gillingham (2003) also cites Lacity and Hirschheim as pointing out that outsourcing does not seem to work well in the following areas; where a specific or unique knowledge of the business is required, where all services are customized, and where the employee culture is too fragmented or hostile for the organization to come back together.

In the view of Lyson and Gillingham (2003), problems reported in relation to outsourced supplies include; high staff turnover, poor project management skills, lack of commitment to client or industry, shallow expertise, lack of control for larger supplier, poor staff training, and complacency over time.

The disadvantages of outsourcing were identified by Van Weele (2010) g; increased dependence on suppliers, continuous follow up and monitoring of the supplier relationship is necessary, risks of leakage of confidential information, depending on balance of power between parties, and risk of losing essential strategic knowledge.

The other side of the coin to handing over responsibility and blame to service providers is loss of control over outsourced operations. It is debatable whether a customer does or indeed can avoid some or all responsibility through engaging service providers.

The most common view of outsourcing appears to be that the concerns generated by giving up control override any sense of relief at not having the day to day operational responsibilities. This trend may result from perceptions regarding the different goals and attitudes of internal and external staff towards service, profits, and survival. Clearly much of the concern stems from customers' suspicions, which may be justified, that the outsourcer does not have the same level of commitment to meeting service requirements as an internal group. After all, as the argument goes, internal staff is more closely aligned to other insiders and subscribes to the goals, mission, and culture of the customer organization.

Perhaps the worst nightmare of the customer of third-party services is the prospect that the provider will fail and leave customers in the lurch without access to critical services and systems. There have been a number of immediate and dramatic instances of failure of managed security service providers (MSSPs), which threatened the ability of customers to stay in business.

## **2.4 Decentralization and the Structure of the Local Government System**

Every state or country in the world has a system of local government. The form it takes depends on the nature of the society in which it is practiced and the conception of the people it serves (Ahwoi, 2010). Nevertheless, one principle runs through all the forms, namely, power is given to a local body to carry out functions which would have been otherwise performed by the central government within the locality. The transfer of power is based on two main considerations. First of all, that Central Government functions are always numerous and heavy and a certain amount of decentralization is necessary, secondly, that certain services are better carried out at the local level where local initiative and talents can be tapped in the discharge of local functions.

The new local government system is made up of a regional coordinating council (RCC) and a four-tier metropolitan and three-tier municipal/District Assembly structure. The RCC consists of the regional minister as chairman and his deputies, the presiding member of each DA and the district chief executive of each district in the region, two chiefs from the regional house of chiefs and the decentralized ministries without voting rights.

A District Assembly consists of the district chief executive, two-thirds of the members directly elected by universal adult suffrage, the members of parliament (MPs) representing constituencies within the district, and not less than 30% of the members appointed by the president in consultation with chiefs and interest groups in the district (Anon., n.d.). District Assembly in Ghana are either metropolitan (population over 250 000), municipal (one town assemblies with populations over 95 000) or district (population 75 000 and over.) Act 462, Constitution of Ghana (1992)

### **2.4.1 Local Governments and Revenue Collection/Mobilization**

The need for additional revenue is desired among many local authorities. But improving revenue mobilization has importance beyond that. Requirements for relieving poverty and improving infrastructure are substantial. The need to develop a Metropolitan, Municipal or District Assembly, for instance, may require low-income generating sectors to strengthen their revenue collection systems.

Revenue mobilization is the act of marshaling, assembling, and organizing financial contributions from all incomes accruing from identifiable sources in an economic setting. Oates (1998, cited in Adu-Gyamfi, 2014) indicated that local revenue mobilization has the potential to foster political and administrative accountability by the empowering communities. Revenue generation, according to (Adu-Gyamfi, 2014) has been defined as the process of acquiring revenue through investments that bring returns, while revenue mobilization is also defined as the use of available resources to harness revenues that are by law to be paid by citizens, corporate institutions and quasi-governmental organizations on their operations.

With respect to district assemblies, revenue and funding arrangements include all revenues and funds available to the Regional Coordinating Councils (RCCs) and the Metropolitan, Municipal or District Assembly (MMDAs) - Internally Generated Funds, Central Government transfers, development partner support grants, access to borrowing, land rates, mineral royalties, transfers, ceded revenues and external credits. Apart from central transfers, such as from the Common Fund, the Assemblies are expected to engage in activities that can generate revenues to be used for their administrative and other

operations (DACF, 2014). The prudent use of the Fund by (MMDAs) brings about value for the money they receive, (Fynn, 2014).

The growth of Africa's towns and cities has outpaced local authority capacity for service delivery in terms of management, infrastructure, and financing (McCluskey *et al.* 2003). Firstly, the urban municipal authorities, many of whom were originally instituted as colonial administrative institutions, have not been restructured to cope with the fast-growing population (Beall, 2000). Secondly, a growing number of urban residents live in informal settlements characterized by deficient basic services such as housing, clean water, electricity, sanitation, refuse collection, roads, and transport (Devas, 2003). Thirdly, many municipalities are fiscally powerless and depend on money related exchanges and help from focal government (Brosio 2000). Additionally, the income gathering organizations are frequently wasteful and a lot of incomes gathered are improperly overseen.

By and large, a crucial necessity while updating nearby frameworks is more noteworthy accentuations on the cost –adequacy of income accumulation, considering the immediate expenses of income organization, as well as the general expenses to the economy, including the subsistence expenses to citizens. What is more, misfortunes through debasement and avoidance should be diminished. Obviously, enhanced income organization cannot make up for awful income outline. In this way, changing the income structure ought to go before the change in organization since there is very little legitimacy in making a terrible income framework fairly better. (Fjeldstad, 2006).



To address issues of fiscal imbalance, some countries have established revenue sharing systems to ensure fairer distribution and allocation of central resources, and to ensure that such allocations are not affected by political affiliations. Kenya, South Africa and Nigeria all have such systems.

In Ghana, Metropolitan Municipal and District Assemblies (MMDAs) are partners to the central government in the national development and as partners, they are required to generate enough Internal Generated Funds to enable them carry out development projects. The revenue generated internally is used to support the statutory District Assemblies Common Fund to provide infrastructural development and services to the people. It is the responsibility of MMDAs to provide municipal and other services as well as maintaining law and order, all of which require enough financial capital. Thus internal revenue mobilization is therefore paramount, (Adu-Gyamfi, 2014).

The District Assemblies Common Fund is the formula-based system of financial transfers for local development from the Central Government. The Fund was created under Article 252 of the 1992 Constitution to serve as a mechanism for the transfers of resources from the Central Government to the MMDAs. The Article provides that 5% of Ghana's total revenue (now increased to 7.5%) should be paid into the Fund for distribution to the local authorities. To operationalize this constitutional provision, Parliament enacted the District Assemblies Common Fund Act (Act 455) in July 1993 to provide further legislation and detail on the administration of the Fund, (DACF, 2014).

While allocations from the Central Government are very important, for fiscal decentralisation to be effective and sustainable, and for local governments to be able to provide effectively for their areas, there is general agreement that local governments have to be fiscally independent and less dependent on Central Government finances (DACF, 2014). This is the concept behind internally generated revenues.

Internally Generated Revenue (IGR) is the revenue the local government generates within the area of its jurisdiction. The extent to which a local government can go in accomplishing its goals will largely depend on its IGR strength (Olubukunola, 2011). Incontrovertibly, IGR is not limited to the resources generated within a geographical territory but also include returns on capital investment from offshore and beyond local confinement. Internally Generated Funds consist of all revenues collected by the MMDAs. IGF is a sum of basic, special and property rates, fees, licenses, trading services, specialized funds, such as stool land royalties, timber royalties and mineral development funds, and investment income.

Currently, IGFs are the only funds over which the MMDAs have total control. Because the Common Fund and most development partner funds are targeted toward development projects and cannot be used for recurrent expenditures, the ability for the MMDAs to maintain new and existing infrastructure will become more and more difficult if they are unable to generate adequate funds from their own activities.

#### **2.4.2 Revenue Collection by the Metropolitan, Municipal and District Assemblies (MMDAs)**

For any Assembly to meet the expectation of its people in terms of performance, development and growth and expectations of its people, it must dramatically increase its fiscal depth without incurring costly recurring overheads. Therefore, accelerated development rests on adequate revenue mobilization. Revenue mobilization is one of the key factors for economic development of the MMDAs and this links into their agenda on social well-being, poverty reduction, economic development of Assemblies and the citizens (Bamful, 2009).

Over the years, proper revenue collection by the Metropolitan, Municipal and District Assemblies (MMDAs) has been identified as one of the major determinants to how best an Assembly is organized and developed. Per the provisions of Sections 97 and 98 of the Local Government Act (Act 462), the MMDAs are mandated to mobilize resources for development through fee-fixing, which embodies rates, licensing, lands, fees and fines. In as much as this is a required duty of the various MMDAs, the big question has always been, what have these MMDAs been doing over the years? The debate of revenue mobilization has always centered on whether it should be done in-house (manual), outsourced (automation), or a combination of the two.

In Ghana, most MMDAs continue to engage revenue collection by using the manual system, which has invariably been beset with motley of challenges and thus affecting the developmental agenda of the Assemblies (Bamful, 2009). With the manual system in revenue collection management, rate-payers can decide to pay their rates directly to the

collectors at their door step thus preventing loss of transactional time by going to the payment point or a bank. However, they stand to be exposed to the risk of fake Government receipts and diversion of funds by the collector which can eventually lead to double billing in the subsequent year, if it is uncovered.

In spite of the fact that some people still believe in the manual collection system, others are completely automating, while others are engage in half automation and half manual. They have been described as half automation because they reduce the automation to building database only, without being mindful of the sources of the data. Thus, they are left with mobilizing their revenue through various mobile collection agents who bring in data for the sake of it. Their interest of course is primarily not to build a database but to get some commission on revenue collected instantaneously. In the short run, the money collected might be deceitfully huge, trickle in faster and also appear as most convenient as compared to a complete automated environment where banks and other payment points shall be introduced. It is however noted that the benefit largely outweighs that of a manual environment (Bamful, 2009).

It has been argued by several local government experts over the years that monies paid to the Assemblies have not been a true reflection of what was collected. This has largely been attributed to the lack of a comprehensive database of ratable property; insufficient control systems or mechanisms in the collection chain; inadequate use of ICT; and lack of collaboration between the Assembly and the service provider which should reflect true partnership. There is also the problem of full-proof receipting; evasion by rate-payers; collusion between rate-payers and collectors; and inadequate information on rate-payers

(street naming and house numbering). All these problems arise because of a manual system or a combination of both manual and automation.

Effectively, the likelihood of double billing, forged receipting, under carbon & pulling of General Counterfoil Receipts (GCRs), duplication of receipts, diversion of funds, collusion with payers, and have over the years affected the revenue potential of the Assemblies.

Innovations have brought about the automation system for revenue collection, which is also known as computerization or mechanization. Revenue automation helps to reduce the cost of collection on a medium to long term basis and as such reduces leakages in revenue collection management. It helps the MMDAs in diverse ways, leading to proper development because of an increased revenue mobilization. Automated revenue systems have been proven to be capable of bringing efficiencies to business processes that can result in increased revenue for the Assemblies. With the use of automation, there is a significant improvement in revenue collection at the MMDAs connected to the system, through plugging up areas of revenue leakage, and the enhancement of transparency of operations (Bamful, 2009).

An automated revenue system helps to improve revenue mobilization. It is based on the electronic payment system through applications such as toll revenue collection, automatic fare collection, bus revenue system and parking system. Additionally, by automating revenue collection, service providers have a better audit trail since all transactions

captured can be detailed by time, by whom and where. This prevents revenue loss through abuses as all transactions are recorded electronically.

In a bid to ensure effective and efficient revenue collection, several private firms provide management and financial support services and revenue collection management that seeks to tailor revenue tracking, monitoring and collection management service that would meet the Assemblies' requirements in a least-cost, low risk and most responsive manner. Already, some of these firms are partnering some MMDAs, using the Electronic Banking System of Revenue Cycle Management (EBS-RCM).

The objectives of the EBS-RCM in management of the revenue system of the Assemblies are to increase total revenue collection; reduce the cost of collection by the Assembly; structure and perfect the tax-payer data for effective budgeting and revenue mobilization and reduce over reliance of the MMDAs on grants from the central governments; employ the services of experts for the purposes of widening the revenue-base and to explore other potential sources; create employment outside the government/public set-up; and stakeholders' awareness campaign.

## **2.5 Problems in Revenue Mobilization**

The decentralization process has devolved a lot of responsibility to the Metropolitan, Municipal, and District Assemblies. As part of their responsibilities, they are supposed to control the total development of their coverage area. As part of the devolution of authority from Central Government to the Assemblies they are also mandated by the 1992 Constitution to generate their own income known as the internally generated funds

to support their developmental agenda. The revenue generating capacities of the Assemblies have improved over the years; however, they still do not meet their target due to the following reasons:

One, Attitude towards payment of rates: The people's unwillingness to pay basic rates is a major challenge confronting several District Assemblies. Basic rates form a considerable proportion of the District Assemblies internally generated revenue therefore the evasion of the basic rates cripples the assemblies' efforts to ensure sustainable development of the districts. The enforcement of user fees has resulted in widespread resistance to pay from the poorer segments of the urban population (Fjeldstad & Semboja, 2000).

Two, Apathy on the part of revenue collectors: This phenomenon has become rampant in the District Assemblies in Ghana. Revenue collectors fail to render accurate accounts to the Assemblies on the revenue generated. Also, some revenue collectors connive and condone with tax payers not to pay the correct amount. This problem has emanated due to the unqualified nature of revenue collectors. These activities of the revenue collectors adversely affect the progress of District Assemblies in Ghana. This affects the District Assemblies' capacity and accountability (Fjeldstad & Semboja, 2000).

Three, Lack of enforcement of payment of property rates: The Local Government Act, 1993, Act 462 identifies property rates as one of the several ways the District Assemblies can employ to raise revenue internally. It is however pathetic to note that several Districts Assemblies in Ghana do not use this means to augment their revenue. Also, due to the use

of antiquated methods of collecting property rates, property owners avoid the payment of rates. This has made property rates very costly to administer (Brosio, 2000).

Four, Poor tracking of economic activities: The District Assemblies in Ghana are challenged by the failure of some individuals and small-scale enterprises engaged in economic activities to pay tax. Some do not have the mechanism to ensure adequate monitoring of economic activities in their area of jurisdiction. This has resulted in a situation whereby these enterprises pay less than the expected amount of money (Devas & Kelly, 2001).

Five, Poor Record Keeping: Poor keeping of records of economic activities within the districts are bedeviling smooth growth. District Assemblies in Ghana have inadequate data on all economic activities found in the district. For instance, they do not collect or keep data on the number of hairdressers, tailors, traders, barbers, lotto kiosk among others operating within the district. This militates against any attempt to improve internally generated revenue. These sources of revenue when well administered can provide substantial and reliable revenue for local government (McCluskey, 2003).

Effective and efficient local revenue mobilization is a major priority to all District Assemblies; it is however beset with numerous challenges. Attempts and efforts should be channeled towards its resolution.

The billing and collection effort by many Assemblies have not lived up to expectation. According to Yeboah et al (2008), the revenue collection rate is very low even though some local Assemblies have employed private partners for the collection. This they



attribute to the following; Inadequate data on all economic activities in the district e.g. hairdressers, seamstresses, traders, barter, lotto kiosk, Misclassification of properties and business and inappropriate tax assessment basis, Lack of realistic means of accessing the revenue potential due to lack of accurate data, Revenue collectors not paying to the Assembly all monies collected and the absence of tracking mechanisms, Property owners avoiding the payment of property rates.

Some individuals and small-scale enterprises engaged in economic activities avoid the payment of taxes to the Assembly as well as Laborious and time consuming business licensing and permit acquisitions deter small scale business operators from applying. Also maps, which will serve as the basis for revenue planning, are often only in manual format, obsolete or worn out while some assemblies have no base maps at all. This makes it difficult to relate spatial content to attribute information available.

## **2.6 Requirement(s) For Effective and Efficient Revenue Collection**

A sound revenue system for local governments is an essential pre-condition for the success of fiscal decentralization, (Olowu & Wunsch, 2003). A widely found characteristic of local 'own' revenue systems in Africa is the huge number of revenue instruments in use by local authorities (Bahiigwa, et al., 2004; Fjeldstad & Semboja 2000). In many countries, local governments seem to raise whatever taxes, fees, and charges they are capable of raising, often without worrying excessively about the economic distortions and distribution effects that these instruments may create.

The levels and types of local revenue instruments by themselves can result in the tax burden falling more on the poor than on the relatively better off in local communities (Fjeldstad & Semboja , 2001). This is mainly due to the basic design of the local revenue system and the way revenues are collected (Fjeldstad & Semboja, 2000; Fjeldstad 2001). Improving revenue administration is essential for enhanced and fairer revenue mobilization and for wider governance improvement. Tax policies and administration in developing countries must make use of ICT HUB. The ICT HUB should be the framework within which the revenue administration must operate. Kenya, like Ghana, has mobile operators who offer mobile money services. With a collaboration between phone users and the banking sector, most bills from public and private institutions ranging from electricity, water, insurance, travel and other contributions are paid via mobile phone platforms, (Githinji, et al., 2014). Most local governments in Ghana could start developing their ICT infrastructure, thence through applications, connect with the national government and interconnect the later to share data and information. The ICT infrastructure could be a basis for effective revenue collection system.

Privatized collection offers no quick remedy to increasing local government authority's revenue as well as easing administrative problems with the revenue collection. In Tanzania, while collection has increased and become more predictable for some councils which had outsourced revenue collection, others had experienced substantial problems with corruption and exceptionally high profit margins for the private agents at the expense of accomplishing a reasonable return to the local government authority, (Fjeldstad, et al., 2008). It is advised however that, the outsourcing of revenue collection

when adequately managed could result in a more effective and efficient local government revenue administration, (Fjeldstad, et al., 2008).

During an assessment of the performance of private revenue contractors in USA in 1996, it was reported that private collectors deceived consumers by misrepresenting themselves as public officials, overcharged consumers for collection of fees, used misleading communications, browbeat consumers into unaffordable payment plans, pressured consumers to borrow from relatives and others, (Resnick, 2005).

In the age of identity theft, any future program for outsourcing tax collection must take steps to protect both the security and privacy of tax payers. First, legislation must prohibit private collectors from disclosing return information to third parties. Second, adequate background screening must be mandated for employees of private collectors handling sensitive taxpayer information. Additionally, safeguards should be provided to limit communications between collectors and third parties reasonably, (Resnick, 2005).

## **2.7 Revenue Outsourcing**

Outsourcing income accumulation as a framework where the privilege to gather certain expenses owed to the state is unloaded to the most astounding bidder , ( Stella,1993). Kiser and Kane (2006) have likewise inspected the idea of income outsourcing. As per them, the idea was honed in Mesopotamia around 1750 BC, in England from the late Tudor period until the Civil War, by the Mughals in Northern India in the early eighteenth century and by France, China,, Russia and Spain at other historical junctures (Kiser and Kane, 2006). As argued by Kiser and Kane (2006), whiles expense cultivating

ubiquity blurred with time and modernization, its way and extreme destruction was once in a while straight and regularly include exchanges between bureaucratic assessments, while government administrations held control over the accumulation of direct charges.

They guarantee that key operator hypothesis gives a promising explanatory and calculated system to study of revenue collection. They imply the way that legally binding viewpoints delineate the two central issues in revenue collection, in particular defilement at payment points and the degree for finding out the assessment of activity based fees. Utilizing the principal-agent way to deal with the relationship between the principal, that is the local government council, and the private collector (agent), the principal's duty is to outline a model that can accommodate the irreconcilable difference between the two parties - Principal and agent. (Iverson et al, 2006).

In local tax collection, the legally binding decision might be deciphered as an element of control or evaluating the capability of local government authorities. Instability about the baseline data for revenue items is the crucial part of the monitoring problem. For instance, a steady revenue baseline data the monitoring system and enables the principal to accurately forecast the revenue inflows. This makes the evaluation of the output of government-employed revenue collectors much easier (Toma &Toma, 1993).

Numerous revenue baseline data in poor countries are particularly inclined toward economic instability. This is specifically true with agricultural-based revenue items where the principal ought to identify (a) poor performance by the local government entity (b) collusion and corruption between tax officials and citizens, and (c) poor collection

due to recession in the local economy. It implies that private revenue collectors are not only responsible for supervising revenue collectors, but also in a better position to punish non-performing collectors (Kiser and Kane, 2006).

## **2.8 Perspectives of Financial Performance**

On individual or employee level, performance is determined by a combination of declarative knowledge (that is information), procedural knowledge (that is know-how) and motivation (that is willingness to perform). The overall level of performance of an employee is therefore determined by the extent of an employee's declarative knowledge, procedural knowledge and motivation. It follows therefore, that if someone has the right information required to perform, has the know-how to do so and is sufficiently motivated, there is likelihood that the employee will have a high level of performance.

Measuring performance on the personnel level may be done in a variety of ways: the trait approach, the behaviour approach and the results approach. The traits approach emphasizes the employee's individual traits which remain fairly stable during an individual's life-span. The behavioral approach emphasizes what employees do. The results approach emphasizes the outcomes and results produced by employees. A behavioral proxy for the salesperson could be the volume of sales generated, (Aguinis, 2014).

Organizational performance on the other hand is described as an organization's ability to acquire and utilize its scarce resources and valuables as expeditiously as possible, in the pursuit of its operational goals (Griffin 2006, cited in Lawal, et al., 2012). Richard et al

(2009), indicate that organizational performance encompasses three specific areas thus: Financial Performance (profits, return on assets, and return on investment), Product Market Performance (sales market, shares), and Shareholder returns (total shareholder returns, economic value added).

For business enterprises, profit is often regarded as the overall measure of performance. It is treated as a financial yardstick for measuring business efficiency and for evaluating managerial competence (ICAI, 2006).

Once performance has been clearly defined and an approach or a range of approaches to measure performance has been agreed upon, it becomes possible to measure performance. Performance measurement is the process whereby an organization establishes the parameters within which programs, investments, and acquisitions reach the desired results (DRC, 2009). It may also be referred to as realization of the set revenue targets.

Key Performance Indicators define a set of values used to measure against (Robert, 2007). In evaluating performance, organizations need to determine what has to be accomplished in order to formulate a clear, coherent mission, strategy, and objective. Then based on the information, it suggests best methods to be used in measuring those activities (Bacon, 2004; Schacter, 2002).

Performance measurement execution estimation is the continuous monitoring and evaluation of revenue collection activities especially towards the attainment of predetermined goals. It is ordinarily undertaken by the private revenue collection agent.

Performance measurement instruments may address the sort or level of activities rolled out (process), the immediate goods and services offered by the program (yields), and/or the outcomes of those products and services (results). A program may be any activity, project, function, or policy that has an identifiable purpose or set of objectives, (GAO, 1998). Performance measurement focuses on whether a program has achieved its objectives, expressed as measurable performance standards.

The balance scorecard is generally used for undertaking performance measurement. A balanced scorecard is a thorough instrument for measurement of performance categorized into four diverse view points (monetary, client, in house business procedures, and learning and development) that gives a structure for interpreting the business game plan into operational terms, (Kaplan & Norton, 1996, cited in Franco-Santos, et al., 2007). Bhagwat and Sharma (2007) likewise outlined some vital execution pointers identified with everyday business operations from four perspectives; funds, consumer, home-based business activities, knowledge acquisition and development.

A strategic performance measurement framework makes an interpretation of business techniques into achievable outcomes, amalgamate monetary, long term plans and work plans to gauge how well the organization achieves its targets (Gates, 1999, cited in Franco-Santo, et al., 2007). For performance systems to meet the objectives of an organization, the term “performance” should be clearly understood and a means of measuring it has to be chosen. A mechanism for measuring results and behaviour also needs to be established. The performance based information needs to be gathered so that it is possible to gain a clear understanding of how an organization is performing with respect to its

objectives. This has to occur in a timely manner and the approach adopted needs to be carefully selected so that the information obtained will be valid and reliable.

Financial Performance, from the business dictionary perspective, is measuring the results of a firm's policies and operations in monetary terms. These results are reflected in the firms return on investment, return on assets and value added. Most firms measure their performance through monetary target. Landajo, et al., (2008) iterate that company performance is usually measured by profitability, which may itself be proxies by using the return-on-assets (ROA) ratio. In addition, according to the author, ROA also can be defined as the quotient of net profit after taxes to total assets. ROA is a helpful measurement when comparing the profitability of one company to another, either for those within the same industry or those from different industries, (Rasiah, 2010).

Financially, the balance sheet presents the overall financial position of a company. The balance sheet lists a business entity's assets, liabilities, and stockholders' equity as of a specific date, usually the end of a month, quarter, or year. This allows decision makers to determine their opinion about the financial status of the company. The balance sheet is like a snapshot of the entity. It is also called the statement of financial position, (Hornngren, et al., 2012).



## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This part talks about the method employed as a part of gathering the data and the way the data was analyzed. Specifically, this chapter includes the research paradigm, design/purpose of research, sampling procedures and sampling frame, data collection method, data analysis, and validity and dependability.

#### **3.2 Research Paradigms**

Philosophical configuration and methodological methodology are issues that must be mulled over in an examination. Philosophical inquiries of presence, information and quality, have noteworthy effects in the research design (Tashakkori and Teddlie, 1998).

The key research questions required in the study recommended that either survey or case study investigations could have been reasonable as the research strategy. The survey strategy was picked as the most proper research technique because of the hypothetical premise of this study which included gathering of data to reach deducting inference.

The research was led among different experts MMDAs in the Ashanti Region. The survey study is led investigating the practices that these experts take part in connection to distinguishing proof of danger and danger administration. This was organized unbiasedly and measured statistically in the study. An organized and statistically controlled research analysis strategy was additionally utilized as a part of dissecting the information. The researcher was of the perspective that the decision of what to study or how to study could be analyzed by both subjective and objective criteria.

The study utilized a quantitative research strategy for an exact estimation and depiction of the varying impact of outsourcing revenue collection on the financial performance of selected MMDA's in Ashanti Region. The primary variables were outsourcing revenue collection and the financial position of MMDA's.

The rationale for utilizing this methodology was to test varying impact of outsourcing revenue collection on the financial position of selected respective MMDA's in Ashanti Region.

### **3.3 Research Design**

Research design is the detailed outline of the study. It is the overall plan employed in the study with respect to approaches, strategies, techniques and procedures which allows the researcher to meet the objectives of the research and to answer the research questions. Research design may take exploratory, descriptive or explanatory approach (Saunders et al, 2009). Exploratory research design shed light on the nature of a situation that is less known and identifies any specific objectives or data needs to be addressed through additional research. Exploratory research is most useful when decisions makers wish to better understand a situation and/or identify decision alternatives (Saunders, Lewis, & Thornhill, 2000). Descriptive research describes the characteristics or functions of a unit of analysis. Descriptive research could be in direct connection to exploratory research, since researchers might have started off by wanting to gain insight to a problem, and after having stated it their research becomes descriptive (Malhotra, 2007). Explanatory research design establishes causal relationship between variables. In these

studies the emphasis is on studying a situation or a problem in order to explain the relationships between variables (Saunders, Lewis, & Thornhill, 2000).

For the purpose of this study, a combination of descriptive and explanatory approach was used. The rationale for using this approach in this study was to enable the researchers to outline the reason why MMDA's outsource revenue collection to private company as well as to find out the challenges associated with outsourcing revenue collection in selected MMDA's in Ashanti Region. In using the descriptive and explanatory research approach in this study, the researchers used questionnaires to collect data for the study through field survey strategy.

### **3.4 Sampling Procedures**

#### **3.4.1 The population and sample**

A research population can be defined as the totality of a well-defined collection of individuals or objects that have common, binding characteristics. Newman (2006), states that a population is an abstract idea of a large pool of many cases from which a researcher draws a sample and from which results are generalized. Therefore the population in a study refers to a list of elements selected from various areas depending on what that researcher wishes to study. The population for this study consisted of all the MMDAs in the Ashanti Region. The Region has 30 Metropolitan Municipal and District Assemblies made of one metropolitan, Municipal and 21 District Assemblies. On the average District Assemblies have a staff population of 50 made up of at least 15 top management officers while Municipal assemblies have 120 officer consisting 30 senior

officers and 90 middle and senior officers. The Kumasi Metropolitan Assemblies has total a staff population of over 500 made of 100 Senior management members and 150 middle and 250 junior officers. The sample population for the study was thus 770 people and 100 senior management officer made up of administrators, Budget Officers, Planning Officers, Finance Officers, Revenue Heads etc.

### **3.4.2 The sampling technique**

According to Saunders et al. (2007) sampling techniques can be divided into two types: probability or representative sampling and non-probability or judgment sampling. The non-probability sampling can be sub-divided into: quota, snowball, convenience, self-selection and purposive sampling. In view of the researchers' inability to reach the whole population to select a sample, convenience sampling was then used to select a sample of one hundred (100) people for the study. For a 95 % confidence level with a margin of error of 5%, the sample population for the estimated population should be 133 people. This result was based on a sample size formula emphasized in a report by (Israel, 2008). The formula is thus;

$$n = \frac{N}{1 + Ne}$$

Where,  $n$  is the sample size,  $N$  is the population size and  $e$  is the level of precision. The sample size of 100 was chosen which approximately represents 50% of the total population. The 100 sample size was selected with the intention of minimizing survey cost and also given the limited time available to complete the study.

The purposive sampling was adopted in selecting the sample case study organizations since they have demonstrated high level of commitment to revenue outsourcing. On the

other hand, the convenience sampling was also adopted to select the respondents. With this method, the researcher selected the units on convenience bases which included issues like proximity, willingness on the part of the respondents take part in the survey and others. This was considered to be a cheap and effective way of sampling from such a large population of potential respondents. In detail, the sample included Directors, Finance Officers, Revenue Collectors, Budget Officers, Assembly Members.

### **3.5 Data collection methods**

In order to make fair judgment of the exercise, two ways of collecting data were used. These are the primary and secondary sources. The primary sources of data contain information which is new at the time of publication. Questionnaire was the main instrument used to collect primary data of this study. The secondary sources of data contain material which is secondhand and has been publish before. These included books, Manuals, Regulations, Reports, Presentations, journals among others.

Standard comprehensive research instruments comprising both questionnaires and interview guides were adapted for the investigation. The questionnaires were adapted following extensive review of literature and tested models of outsourcing adopted at the workplace. Various types of questionnaire include;

1. Closed ended questionnaire
2. Open ended questionnaire

The close-ended questions are questions which included multiple choice and rating scales has the advantage of being easier to administer to a large group of respondents and

therefore saves time. It is easier to score, tabulate and analyze and it is more objectively and reliably scored. A major disadvantage is that it does not provide detail information about the problem and fails to yield information of sufficient depth. The opposite is true of open-ended questions (Robson, 2003). An open ended is the type that provides the respondents the opportunity to provide his idea of a situation under study and is not restricted to multiple choice answers.

The researcher strictly used the close-ended items to collect the required data. In this technique the respondents were only to tick the correct option to the question according to their opinions using a likert scale of 1-5 for the employees.

### **3.6 Data Analysis**

Descriptive analysis was used to analyze the data collected. Data analysis was designed to provide sound basis for discussion the result of the study by presenting data in a systematic, logical and summarized manner with the help of IBM SPSS Version 16. The descriptive statistical tools such as percentages and means were used to analyze the data. Data analyzed were presented in tables, charts and figures.

### **3.7 Quality of the research**

Validity determines whether the study measures what it intends to (Jacobsen, 2002, cited in Bremen and Bell, 2007). In order words, research seeks to investigate, and the findings from the investigation are required to be valid. Valid findings indicate that information collected is accepted and relevant. The accepted and valid information depends on the source of data collected. (Bryman & Bell, 2007). Bearing this in mind, the researcher

tried to identify the respondents who were suitable to provide relevant information. It was also possible to get back to the respondents used for the study to seek further information and clarification. This increased the validity of the study.

Reliability on the other hand is concerned with the consistency and trustworthiness of the results and the information found. A study is reliable if other research on the same subject yield similar results or arrives at similar conclusion (Bremen & Bell, 2007, Saunders et al, 2009). In order to reduce threats to reliability the researcher pretested the questionnaires on a sample of five (20) respondents from selected MMDA's in Ashanti Region to find out if the respondents understood the questions and whether the questions were relevant to elicit the right responses for the study. Feedback from this was used to improve the questions. This improved the reliability and quality of the study.

### **3.8 Research Ethics and Limitations**

There were ethical issues relating to the principles of voluntary participations. It is required that people are not being coerced into taking part in the research. In addition, the notion of voluntary participation is the requirement of informed consent. This means that participants in the research must be fully informed about the procedures and risks involved in the research before allowing them to give their consent to participate. Ethical standards require that participants are not put in a situation where they might be at risk of harm, both physical and psychological, as a result of their participation (Trochim, 2006).

The ethical issues were addressed by attaching a covering letter to the questionnaire, which explained the purpose of the questionnaire and informed the participants that no information identifying the respondents will be disclosed under any circumstances and only the researcher will have access to them. Before administering the questionnaire, the participants were asked for their consent and informed that they were free not to answer any question they were not comfortable with. Also, they were assured that, identifying information will not be made available to anyone who is not directly involved in the study



## **CHAPTER FOUR**

### **RESULTS AND DISCUSSION OF FINDINGS**

#### **4.1 Introduction**

This chapter presents the results and findings of the study in three main sections; the demographic features and descriptive statistics of the study variables, the inferential statistics and the key findings and the final section deals with the discussion of the results where the main findings are situated in the literature. Thus, it argues for such outcome that supports earlier works and those that contradict previous literature, where logical and sound arguments are proffered for such occurrences.

#### **4.2 Demographic Characteristics of the Respondents**

The demographic characteristics have been summarized and displayed in Table 1. The descriptive statistics of the demographics was studied to enable the researcher evaluate the respondents characteristics relevant to the study. Respondents' sex, educational level, number of service were highlighted. The key to Table 4.1 was f=frequency.

***Table 4.1: Demographic characteristics of respondents***

<b>ITEM</b>	<b>Frequency</b>	<b>Percent (%)</b>
<b>1) Sex</b>		
Male	57	57.00
Female	43	43.00
<b>Total</b>	<b>100</b>	<b>100.00</b>
<b>2) Educational Level</b>		
Post Graduate	7	7.00
First Degree	18	18.00
A/O Levels	27	27.00
SHS	42	42.00
None	6	6.00
<b>Total</b>	<b>100</b>	<b>100.00</b>
<b>3) Number of Years of service</b>		
less than 1 year	10	10.00
1-5 years	35	35.00
6-10 years	30	30.00
11-15 years	14	14.00
16-20years	9	9.00
21 years and above	2	2.00
<b>Total</b>	<b>100</b>	<b>100.00</b>

*(Source, Field information, 2016)*

#### **4.2.1 Gender of Respondents**

As depicted in the table 4.1 above, 43% of respondents contacted were females and the remaining 57.00% being males. This finding shows that majority of the respondents were males.

#### **4.2.2 Educational level of Respondents**

The results show that respondents who have postgraduate education were 7 (7.00%), first degree holders 18 (18.00%), A/O Level holders 27 (27.00%) Senior High School Leavers also were 42 (42.00%) and those without any formal education were 6 (6.00%) with total

of 100 (100.00%). The results show that most respondents have only attained SHS in their educational pursuit.

#### **4.2.3 Respondents' Number of Years in the Assembly**

The study also identified how long the respondents contacted have been work with the MMDAs and the revenue collection agents. To this end, it came out that 30 per cent had been in the employ of their firms for 6 to 10 years and 14 per cent have been serving from 11 to 15 years. 10 per cent have existed for less than one year. This is shown in table 1 above.

#### **4.3 Why MMDAs Outsource Revenue Collection**

The study sought to identify some factors which influence the outsourcing decisions. In other words, what reasons account for outsourcing of revenue collection by MMDAs? To achieve this objective, respondents were made to indicate any of the factors listed in the table below influence their outsourcing decisions. The results of this endeavour are displayed in table 4.2 below:

***Table 4.2: MMDA'S reasons for outsourcing***

<b>Internal Factors</b>	<b>N</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Std. Deviation</b>
Cost of collection	100	3.00	5.00	4.6700	.51355
Poor tracking of economic activities	100	1.00	5.00	3.8200	1.31333
Difficulty in collecting them	100	3.00	5.00	4.2300	.90849
Value system	100	1.00	5.00	1.6900	.83720
Poor record keeping	100	1.00	5.00	2.6000	1.58274
Expertise of private collection agents	100	1.00	5.00	1.3900	.70918
Valid N (Listwise)	100				

***(Source, Field information, 2016)***

The table 4.2 above shows that of the list variables that MMDAs consider in making the decision to outsource revenue collection to private agents or not. It is most often the case that MMDAs consider the cost of using their own staff to collect revenues too high. They are often of the opinion that by allowing a private agent to handle the collection process, significant savings could be made. This is the prime reason behind outsourcing at the MMDA level. This factor scored a mean of 4.67 on a scale of 1 to 5, and a standard deviation of 0.51355. This translates to 93.4 per cent of the respondents.

The difficulty in collecting revenues make MMDAs rely on private agents. This scored a mean of 4.23 and a standard deviation of 0.90849 on a scale of 1 to 5 indicating that 84.6% of the respondents representing a majority agreed to this assertion. Another factor which exhibited a high corroboration, that is, scored a 76.4% corroborative response, was the inability of MMDA revenue collection staff to widen their scope of reach or properly track areas of economic activities. This factor scored a mean of 3.82 and a standard deviation of 1.31333. 'Poor record keeping' scored a mean of 2.6 (52%) and a standard deviation of 1.58274 on a scale of 1 to 5.

Expertise of the third party collector is hard a mediate factor for outsourcing. This inference was made due to the fact that this variable scored a mean of 1.3900 (27.7%) with a standard deviation of 0.70918.

#### **4.3.1 Revenue Items Outsourced**

Generally, twelve (12) potential revenue items were identified as those mainly outsourced by the MMDAs. Table 4.3 below contains these potential revenue items for each MMDA.

**Table 4.3. Standard Revenue Items outsourced by MMDAs**

Revenue Item	Key	Revenue Item	Key
Business Operating Permits	BOP	Big Companies' Levies	BCL
Property Rates	PR	Advertising and Billboards	A&B
Hotel Levies	HL	On-street Parking	OSP
Market Tolls	MT	Hawkers' Levies	HL
Electricity Corporation of Ghana properties	ECGP	Store licenses	SL
Telecom Mast	TM	Cocoa Marketing Board Properties	CMBP

**Source:** field data (2016)

Out of these twelve (12) revenue items identified, the Kumasi Metropolitan Assembly (KMA) outsources all these revenue items to private agencies, with the exception of part of the property rates for commercial institutions, which the assembly collects with its own staff. Findings with respect to the OBUASI MUNICIPALITY and the BOSOME FREHO DISTRICT showed that the two have outsourced five (5) and four (4) revenue items respectively.

**Table 4.4: Would you consider the items listed as non-core?**

Observed			Predicted		
			q1		Percentage Correct
			No	Yes	
Step 0	q1	No	0	27	.0
		Yes	0	73	100.0
	Overall Percentage				73

**(Source, Field information, 2016)**

Based on the responses from the respondents, it could be established that the activities that the MMDAs engage in meet the definition of outsourcing. Given that 73 per cent of responses affirm that the activities handed to third party agents are non-core, this process meets definition by Overby (2007), who defined outsourcing as "...the sub-contracting of

a company's non-core functions such as product or service designs of a manufacturing company, to a third party company.”

#### **4.5 Effectiveness of Revenue Collection Agents**

Findings further revealed that of these three MMDAs that engage in practical outsourcing, Kumasi Metropolitan Assembly engaged in the most comprehensive outsourcing. This was based on the number of revenue items they each outsource. The researcher first and foremost identified all the private revenue collectors engaged by the MMDAs. The table below contains the list of these agents:

***Table 4.5: Revenue Collection Agents***

<b>No</b>	<b>COMPANY</b>
1	REVSOL (OFORIKROM, SUBIN & MANHYIA SUB-METROS)
2	REVNET (TAFO, SUAME, BANTAMA & KWADASO SUB-METROS)
3	SKY MOUNT (PROPERTY RATE) HOTELS, COMMERCIALS AND INDUSTRIES
4	UCL (ASOKWA & NHYIAESO SUB-METROS)
5	SKY MOUNT CONSULT (ADVERTISEMENT)
6	SKY MOUNT CONSULT (BUSINESS OPERATING PERMIT)
7	GOLD STREET CONSULT (ON STREET PARKING, ETC)
8	GOLD STREET CONSULT (SOKOBAN WOOD VILLAGE)
9	F. K. OWUSU (LOTTO KIOSKS)
10	DAY & NIGHT TOWING SERVICE
11	SUAME MAGAZINE MGT. CO.
12	T & K COMPANY LTD. (NANA AFIA KOBI MARKET)
13	NOBLE DREAM INVESTMENT LTD. (KODBEDKO LTD.)

***(Source, Field information, 2016)***

In order to establish the effectiveness of the revenue collection agents, the researcher collected data on the volumes of revenues collected by the third party agents over a period of five years (2009-2012). The data was subjected to trend analysis wherein the

trend in revenue mobilization was identified. The tables and figures below present picturesque results of this analysis.

#### 4.5.1 Kumasi Metropolitan Assembly

*Table .4.6: Volume of the revenue collected; 2008-2012*

MMDA	Year	Item outsourced	Year				
			2008	2009	2010	2011	2012
KMA	2004	Kejetia Terminal	571,181.30	467,171.60	1,769,658.00	2,452,607.40	2,780,522.98
	2008	BOP	637,253.72	693,854.23	758,432.98	875,323.41	822,546.83
	2008	Car park	336,639.36	538,454.67	809,262.49	898,244.07	1,027,376.86
	2008	Property rate	938,743	1,795,240	1,604,283	1,495,316	1,989,367
	2010	Wood village		30,584	107,326	192,855	127,781
	2006	Magazine	11,514	15,456	31,244	38,563	59,783
	2008	Day& Night Towing	12,800	16,900	21,450	45,400	62,600
	2007	Lotto Kiosk	5,980	7,230	12,640	13,230	16,340

*(Source, Field information, 2016)*

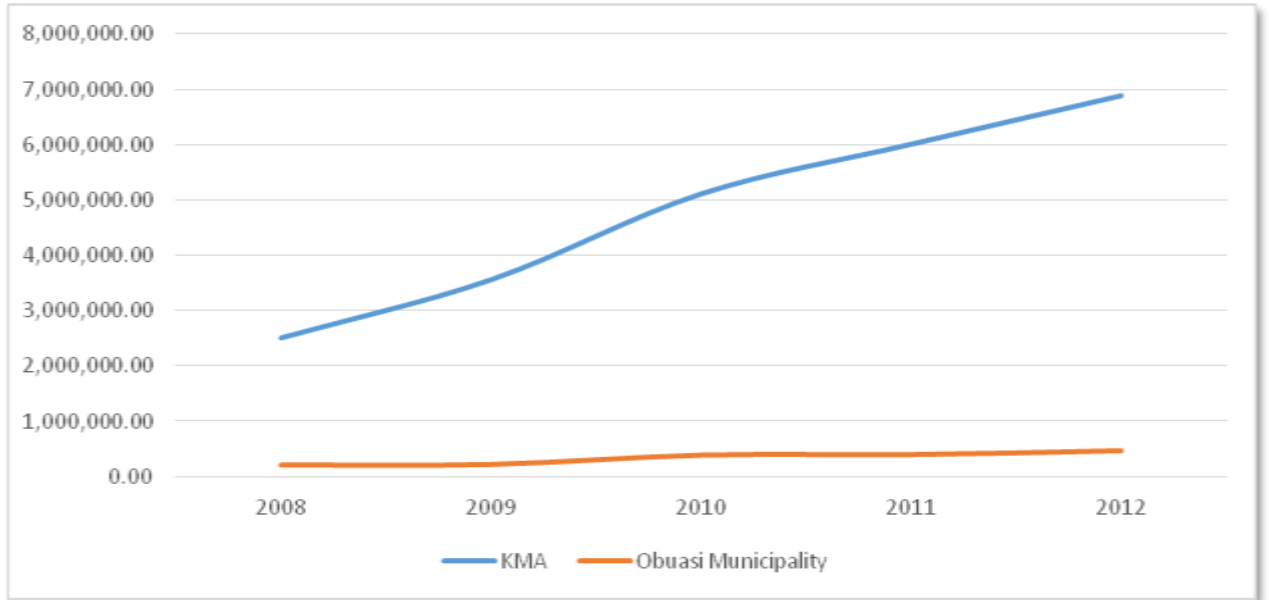
#### 4.5.2 Obuasi Municipality

*Table 4.7: Volume of the revenue collected; 2008-2012*

MMDA	Year	Item outsourced	Year				
			2008 (GHc'000)	2009	2010	2011	2012
Obuasi Municipality	2009	Mast/CMB/E CG	25,890.00	30,259.00	40,561.00	45,879.00	45,879.00
	2010	Property rate	72,875.97	88,434.36	120,490.93	139,204.49	166,787.38
	2010	Market Tolls	109,743.00	101,537.00	225,314.16	212,151.20	254,283.60

*(Source, Field information, 2016)*

**Figure 4.1: Trend in revenue collection of private agents; 2008-2012**



*(Source, Field information, 2016)*

The picture above indicates that KMA has seen a much more dramatic rise in revenue mobilization by private agents than Obuasi Municipality. It is obvious that KMA has a wider revenue collection sources than OMA. Given the steepness in the rise of revenue collection by KMA agents over the five-year period. It could be concluded that outsourcing accrues more gains to KMA than OMA.



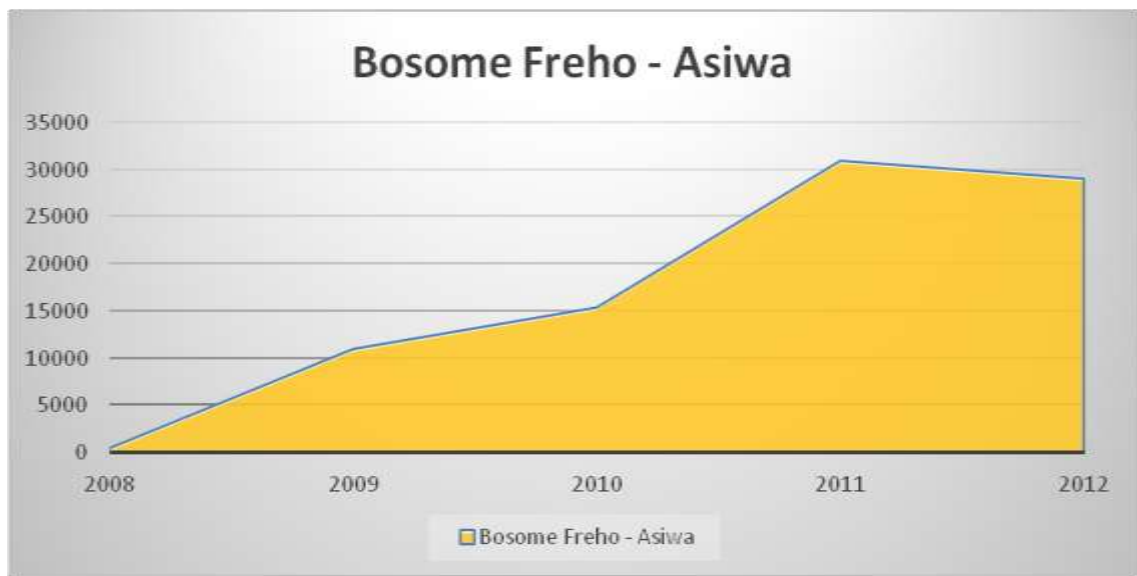
#### 4.5.3 Bosome Freho

**Table 4.8: Volume of the revenue collected; 2008-2012**

MMDA	year	Item outsourced	Year				
			2008	2009	2010	2011	2012
Bosome Freho – Asiwa	2009	Telecom mast	-	4,500.00	5,000.00	14,000.00	14,000.00
	2010	Rate on produce	526.60	3,526.60	6,245.30	7,724.61	4,512.10
	2010	Building Permit	-	-	393.80	675.00	695.00
	2009	property rate	-	2,987.00	3,763.70	8,515.90	9,807.00

*(Source, Field information, 2016)*

**Figure 4.2: Trend in revenue collection of private agents; 2008-2012**



*(Source, Field information, 2016)*

The Bosome District Assembly has the least of revenue collection sources, and apparently collects little revenues relative to KMA and OM. Revenue collection agents of

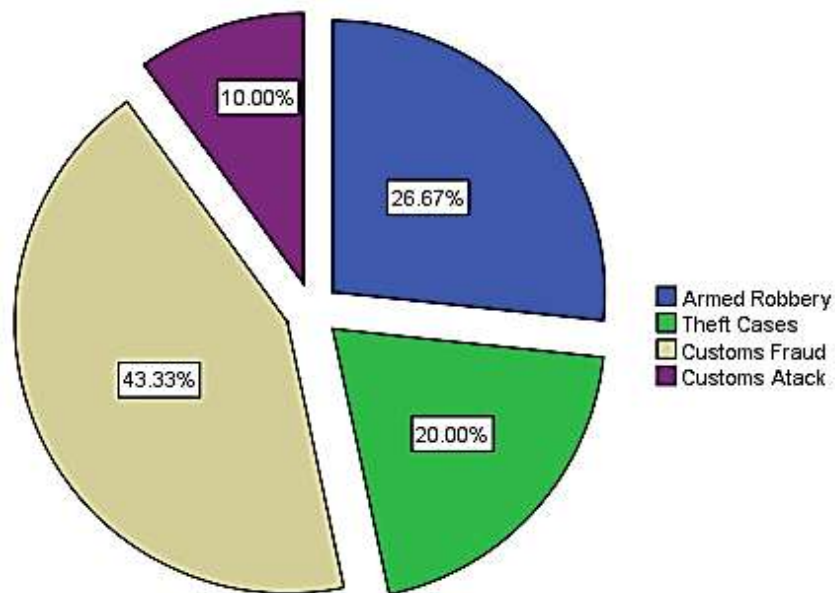
this assembly has however improved upon their efforts in 2008, 2009 and 2010 tremendously.

#### **4.6 Risks and Challenges Associated With Outsourcing Revenue Collection**

##### **Function**

The last specific objective of the study was also to find out the Revenue Collection challenges and risks involved in outsourcing the Revenue Collection function. The risks faced by the third party and the outsourcing MMDAs were identified and the results are presented in figure 8 and 9 below:

***Figure 4.3: Risks Encountered By MMDAs in Revenue Collection Outsourcing***

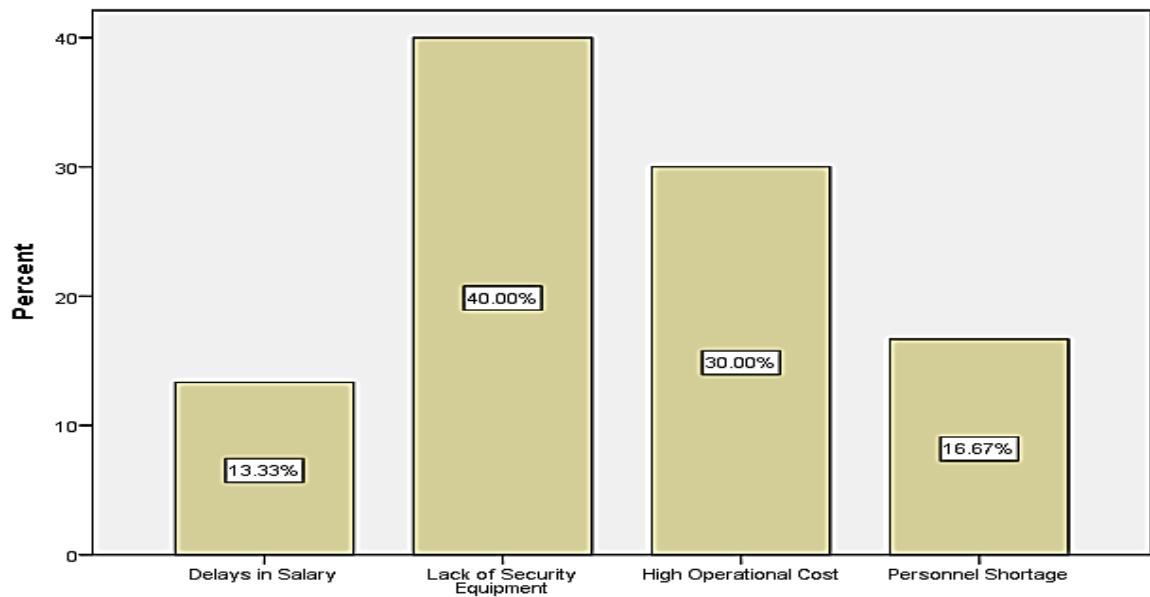


***(Source, Field information, 2016)***

From the perspective of the outsourcing MMDA, customers fraud was rated the highest (43.33%) followed by armed robbery (26.67%), then theft cases (20%) and customers attack (10%). The high rating of customers' fraud is feared most by the outsourcing

MMDA because the Revenue Collection agent could connive with fraudsters to dupe the MMDA. There was a substantial number who saw armed robbery as a risk because these third party Revenue Collection personnel sometimes serve as informants to armed robbery gangs and work with them to rob the MMDAs of any amassed wealth.

**Figure 4.4: Challenges Encountered By Third Party Revenue Collectors**



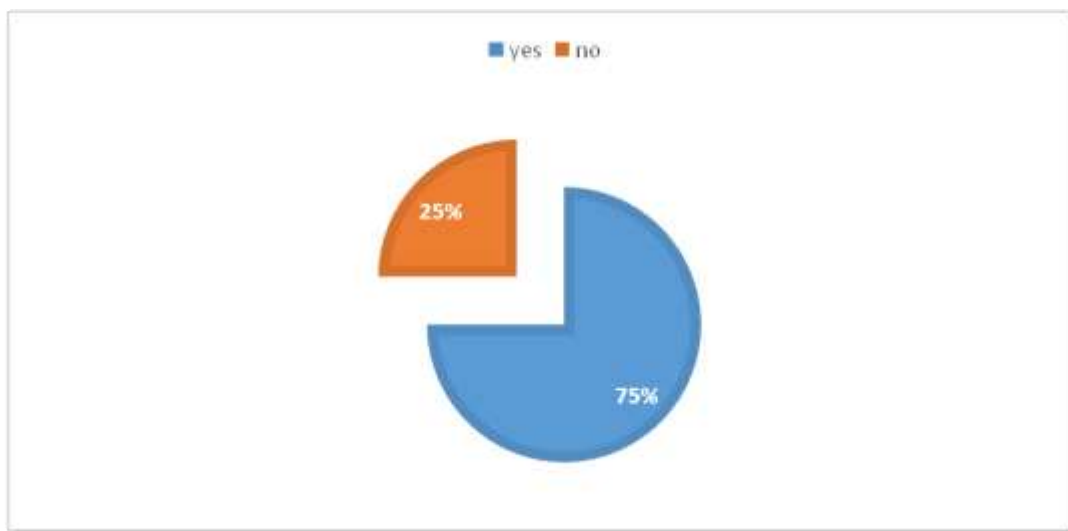
*(Source, Field information, 2016)*

From the perspective of third party Revenue Collectors, lack of Revenue Collection equipment was rated highest (40%) of their challenges, followed by high operational costs (30%), personnel shortage (16.67%) and delays in salary (13.33%) as presented in figure 4.4.

#### **4.7 Impact of Outsourcing Revenue Collection on the Financial Performance of MMDAs.**

The study also wanted to determine how outsourcing of revenue collection contributed to the performance of Municipal, Metropolitan and District Assemblies. The outcome of this activity is presented in figure 3 below:

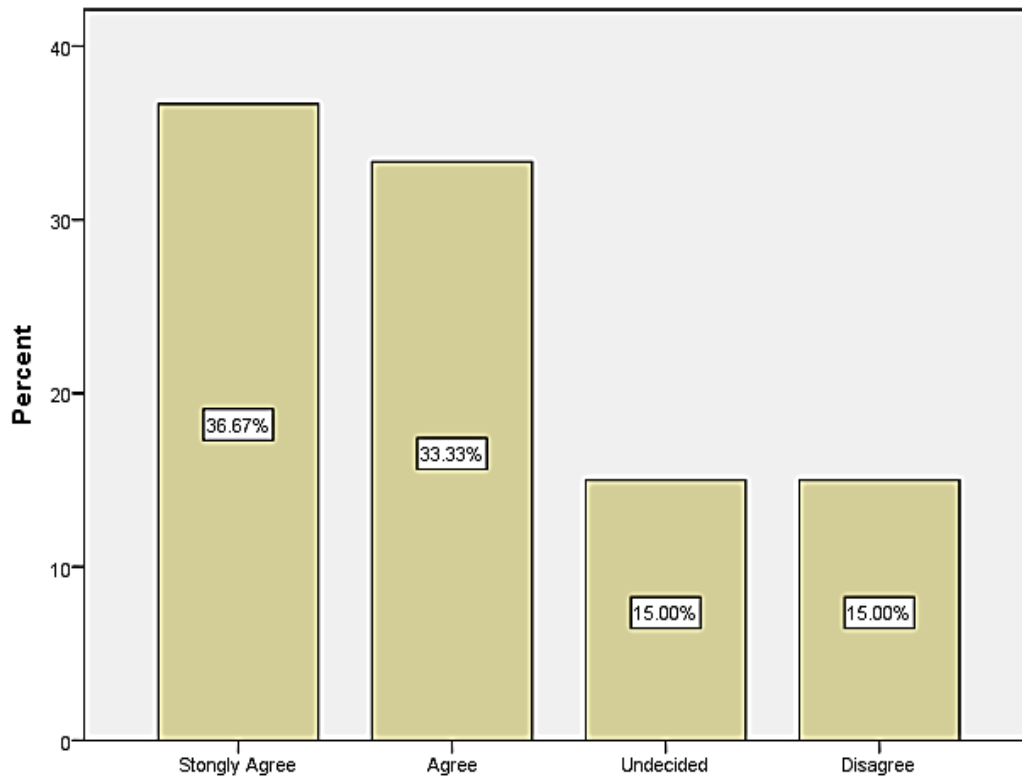
***Figure 4.5: Has Revenue Collection Outsourcing Benefited the Entity?***



***(Source, Field information, 2016)***

Figure 4.5 shows that the majority(75) of the respondents indicated ‘yes’ while 25% said no when asked whether outsourcing the Revenue Collection function has benefited their respective MMDAs. The rest of the section sought to find out the specific areas where the MMDA has benefited from outsourcing its Revenue Collection function to a third party.

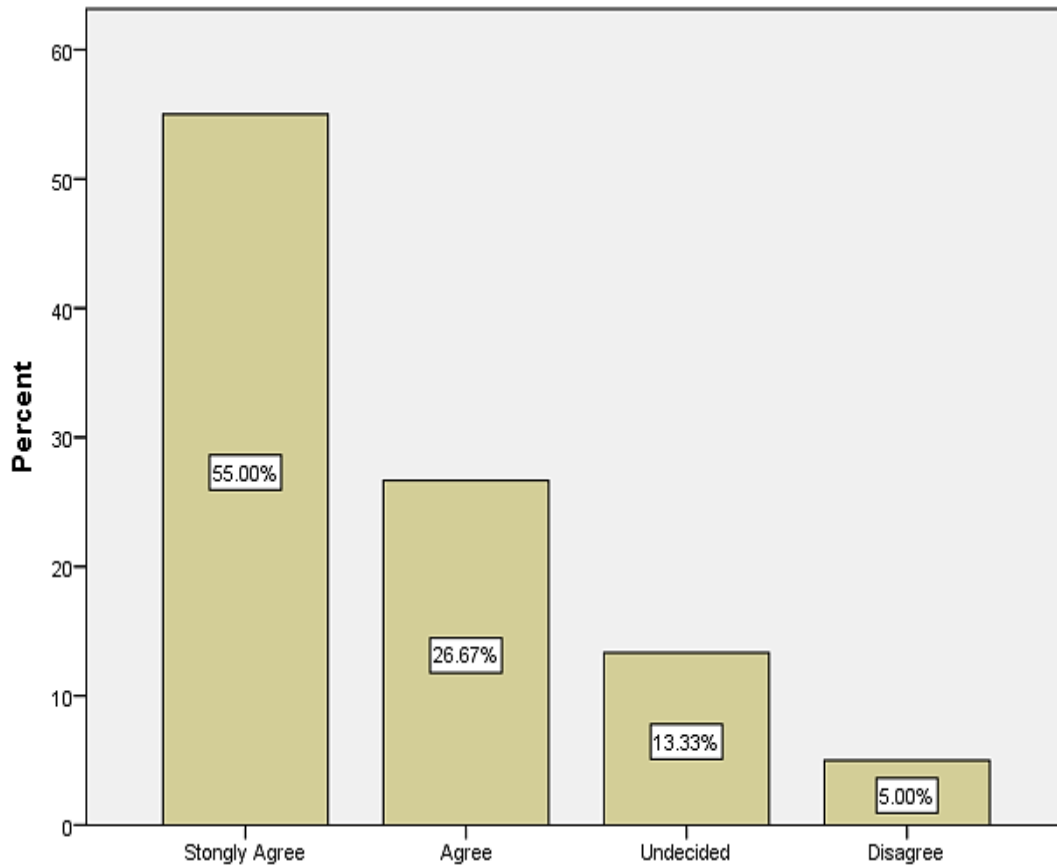
**Figure 4.6: Revenue Collection Outsourcing Has Improved Operational Performance**



*(Source, Field information, 2016)*

When respondents were asked whether Revenue Collection outsourcing has helped improved the MMDAs operational performance, 36.67% strongly agreed, 33.33% agreed, 15% had no opinion and 15 % disagreed, as shown in figure 4.6 above. This shows that third party Revenue Collection agents contribute to operational performance of their clients. The exact ways in which this is achieved is not indicated, it could be presumed that outsourcing Revenue Collection function allows staff of MMDAs to concentrate on core firm activities better, assist in improved service delivery and also cut cost on human resource. These all could go a long way to contribute to the bottom-line of MMDAs that outsource their Revenue Collection services.

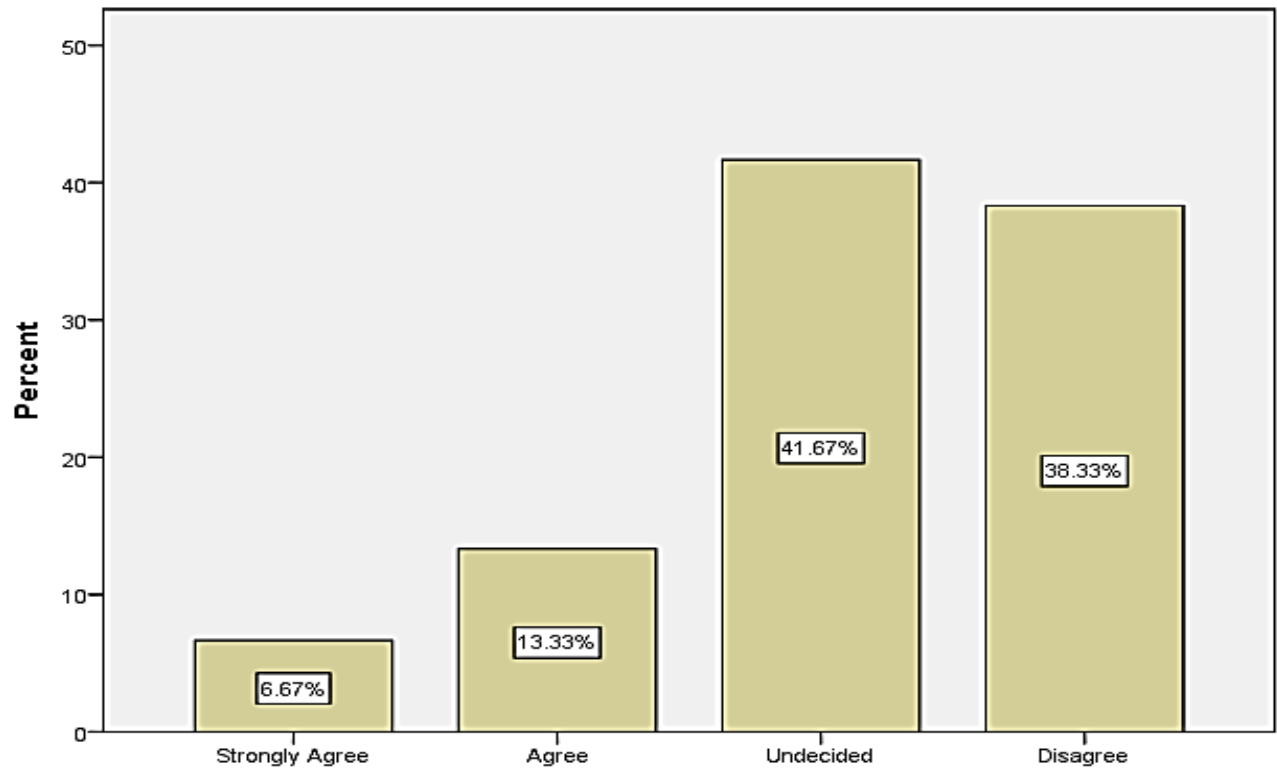
**Figure 4.7: Revenue Collection Outsourcing Has Led to Optimal usage of knowledge, equipment and experience of third party**



**(Source, Field information, 2016)**

Another area that the revenue collection function has impacted was optimal usage of knowledge, equipment and experience of third party. This was strongly agreed by 55% and agreed by 26.67% with 13.33 % undecided and only 5% disagreeing, as shown in figure 4.7. These finding corroborates that of VanWeele (2010) who identified that outsourcing frees up of cash, optimal usage of knowledge, equipment and experience of third party and increases flexibility.

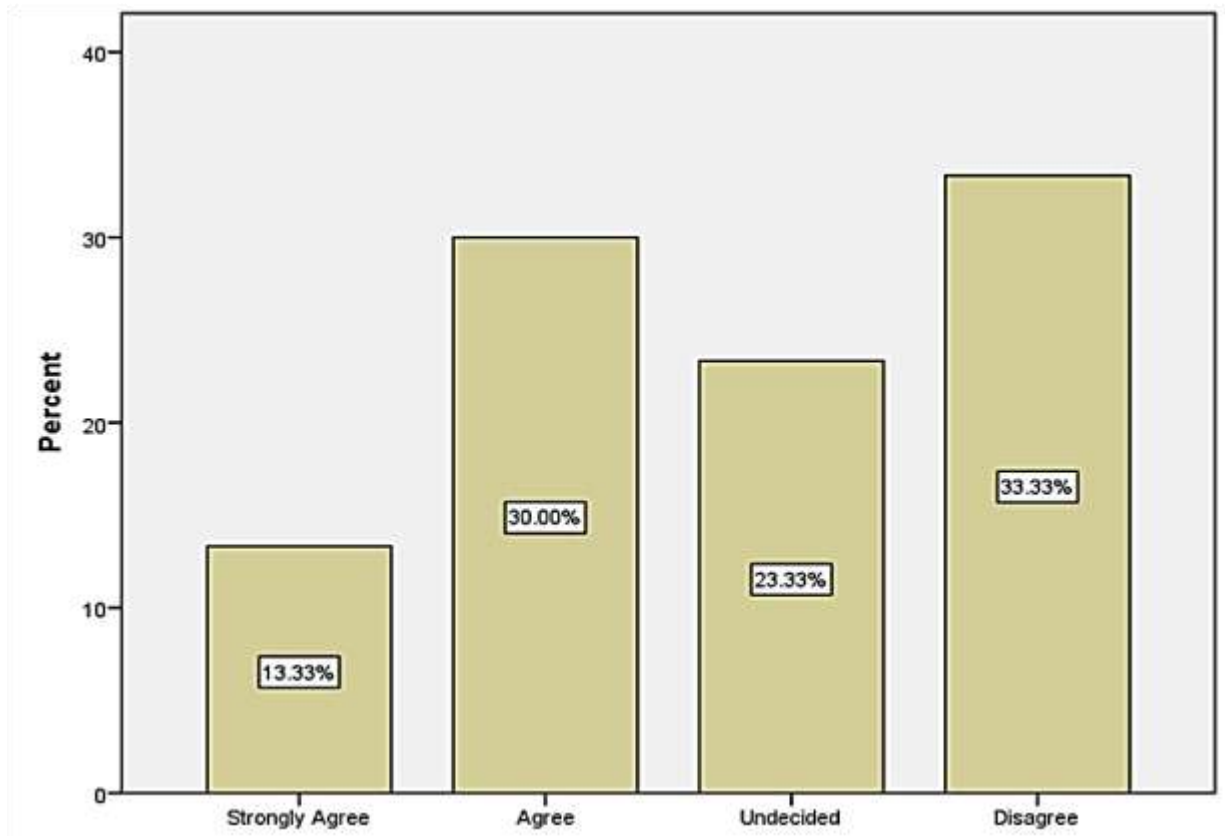
**Figure 4.8: Revenue Collection Outsourcing Has Led to Increased Geographic Coverage**



*(Source, Field information, 2016)*

From figure 4.8, it can be seen that 41.67% of the respondents are not sure whether Revenue Collection outsourcing leads to increased geographic coverage, while 38.33% disagreed to the assertion. Only 13.33% agreed and another 6.67% strongly agreeing. It can be assumed that outsourcing Revenue Collection function has no direct effect on the extent of geographic coverage.

**Figure 4.9: Revenue Collection Outsourcing Has Led to Cost Reduction**



*(Source, Field information, 2016)*

Figure 4.9 also shows that 43.33% of the respondents agreed that Revenue Collection outsourcing has led to cost reduction but another 33.33% strongly disagreed that the Revenue Collection outsourcing contributes to reducing cost for companies. Another 23.33 % of the respondents were undecided. Though majority of the respondents are of the opinion that revenue collection outsourcing leads to cost reduction for their organization, the large number of respondents who disagreed or were undecided called for further investigation into revenue collection outsourcing and cost reduction. These findings thus only partly support the results of Jackson, et al., (2001). In their study, they



found out that when the outsourcing process works, it offers companies compelling strategic and financial advantages, including lower costs.

As to areas where Revenue Collection outsourcing reduces cost, 30% of the respondents rated employee salaries, followed by 28.33% who rated end of service benefit, 23.33% rated medical expenses and 18.33% rating Revenue Collection equipment. It follows that outsourcing Revenue Collection leads to reduction to employee salaries, end of term benefits and medical expenses.

#### 4.6.2 Regression Analysis

As part of ascertaining the effects of outsourcing revenue mobilization on the financial performance of MMDAs in Ashanti region, a linear regression analysis was conducted, and presented as table 4.9.

***Table 4.9 Effects of Outsourcing on MMDAs Financial Performance***

<b>Independent Variables</b>	<b>B</b>	<b>S.E</b>	<b>T</b>	<b>Sig.</b>
(Constant)	2.134	.201	10.605	.000
Outsourcing	.331	.053	6.201	.000
	<b>R</b>	<b>R<sup>2</sup></b>	<b>F</b>	<b>Sig.</b>
	.340	.116	38.457	.000

***(Source, Field information, 2016)***

In order to remain more competitive, organizations are increasingly resorting to outsourcing. Typically, organizations outsource their peripheral activities, while they concentrate on their core business activities. By this, they are able to leverage on the expertise of others, while focusing their resources on what they can do best. The MMDAs in Ashanti region are not left out of this. Some of the assemblies, depending on

the size and business activities, outsource part of the revenue mobilizations to private firms. These assemblies usually concentrates on market tolls, while the private firms concentrate on property rates.

The literature on the effects of outsourcing on organizational performance has been a mixed one. Some studies found a positive effect of outsourcing on firm's performance (Jackson, et al., 2001; Kakabadse & Kakabadse, 2000; Basu & Wright, 2008). Others studies also found a negative effect on firm's performance (Lyson & Gillingham, 2003; Van Weele, 2010). The MMDAs sampled for the study comprised both those who engaged in outsourcing, and those who do not. They were then asked to indicate the level of their financial performance over the years. These variables were therefore used in the regression analysis, to determine whether engaging in outsourcing increased an MMDA's financial performance.

From Table 4.6, the correlation value ( $r = .340$ ) indicates a moderate relationship between outsourcing and financial performance of MMDAs. The  $r^2$  value of .116 indicates that, 11.6% of the changes in MMDAs financial performance is attributable to outsourcing. The F-statistics showed that, outsourcing was statistically significant at influencing the changes in MMDAs financial performance ( $F = 38.457$ ;  $Sig. = .00$ ).

The regression coefficient of .331 indicates that, there existed a positive relationship between outsourcing and MMDAs financial performance. As an MMDA engages in outsourcing, their financial performance increases by 33.1%, and vice-versa. From this

analysis, it is therefore prudent for MMDAs to engage in outsourcing. However, other factors like commission charged by the private firms, and the size of the assembly must still be regarded before outsourcing decisions are concluded. This is because the private firms could generate more income, but may be used to pay them as commissions, while making the staff of the MMDAs redundant.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This Chapter is a brief summary of the effect of outsourcing revenue collection on performance of Metropolitan, Municipal and District Assemblies. It also talks about the conclusion of the study and the appropriate recommendations.

#### **5.2 Summary of findings**

In order to achieve the objectives of the study, the researcher sampled 100 respondents who were comprised largely of males. The respondents' academic qualification was extensively within A/O levels and SHS.

##### **5.2.1 Reasons Why MMDAS Outsource Revenue Collection**

The researcher needed to identify the revenue items outsourced by the MMDAs. As at the time of the study, the items outsourced by the MMDAs were: rates, licenses, fees, fines, rent, lands, personal emolument, DACF, PWD, HIPC, DDF, UDG, Central Government Treasury and school feeding.

It came to light that the main reasons why MMDAs relied on private revenue collection agents were: difficulty in collecting revenues, the inability of MMDA revenue collection staff to widen their scope of reach or properly track areas of economic activities and poor record keeping; which makes it difficult to assess the volume of operations/transactions of the taxpayers and tax them accordingly.

### **5.2.2 Effectiveness of Revenue Collection Agents**

Findings further revealed that Kumasi Metropolitan Assembly engaged in the most comprehensive outsourcing. This facility outsourced all of the revenue items identified in 5.2.1 above.

Data collected and analyzed revealed that the impact of the private revenue collectors on the volumes of revenues generated by the MMDAs is positive and significant. The researcher could not secure quantitative data on the revenue generation position of the MMDAs before the advent of the private agents, in order to enable adequate and much more expressive comparison. Nonetheless, submissions collected from representatives of the MMDAs - which formed part of this research- convincingly indicated that the Assemblies considered made gains from outsourcing their non-core activities to private agents.

Relatively, KMA has seen a much more dramatic rise in revenue mobilization by private agents than Obuasi Municipality and Busome Freho. It is obvious that KMA has a wider revenue collection sources and coverage than the other two assemblies. There was a significant rising trend in the volumes of revenues collected by the private agents over the period the study covered.

### **5.2.3 Risks and Challenges Associated With Outsourcing Revenue Collection**

#### **Function**

The last objective of the study was also to find out the challenges and risks involved in outsourcing the Revenue Collection function. The risks faced by the third party and the outsourcing MMDAs were identified.

Customers' fraud was rated the highest, followed by armed robbery and then theft cases. The customers' fraud is feared most by the outsourcing MMDA to the extent that the Revenue Collection agent could connive with fraudsters to dupe the MMDA could in the long term affect the liquidity position of the MMDA. There was a substantial number who saw armed robbery as a risk because these third party Revenue Collection personnel sometimes serve as informants to armed robbery gangs and work with them to rob the MMDAs of any amassed wealth.

From the perspective of the private revenue collectors, lack of revenue collection equipment was rated highest of their major challenges, followed by high operational costs and personnel shortage.

### **5.2.4 Impact of Outsourcing Revenue Collection on the Financial Performance of MMDAs.**

The study also wanted to determine how outsourcing of revenue collection contributed to the performance of Municipal, Metropolitan and District Assemblies.

Revenue Collection outsourcing, according to respondents, has helped improved the MMDAs operational performance. The exact areas of operations where improvement has been realized was however not determined. It could be inferred thence, that, outsourcing

Revenue Collection function allows staff of MMDAs to concentrate on core organizational activities better, assist in improved service delivery and also cut cost on human resource.

Respondents were unsure whether Revenue Collection outsourcing led to increased geographic coverage. It can be assumed that outsourcing revenue collection function has no direct effect on the extent of geographic coverage. Majority of the respondents are of the opinion that revenue collection outsourcing led to cost reduction; it leads to reduction to employee salaries, end of term benefits and medical expenses.

### **5.3 Conclusion**

The economic imperatives of sourcing are undeniable: under the right circumstances, organizations can engage an outside service provider to perform an internal business or technical function or process at a much higher quality level and at a lower cost. Metropolitan and District Assemblies in Ashanti Region of Ghana face intense competitive pressures due to factors like technological change and the need to generate enough revenues to finance their operations, programs and projects. As a way to address these concerns, the MMDAs are increasingly outsourcing their activities by shifting what they traditionally handle in-house to external revenue collection agents. The MMDAs have successfully outsourced revenue mobilization to private agents. They had a clear vision of why they wanted private business to take over revenue mobilization. They got what they wanted: lower costs while maintaining or improving the quality of service and focus on core organizational activities.

#### **5.4. Recommendations**

The recommendations that have been established by the study have implications for theory and practice for all MMDAs, private revenue collection agents and researchers.

The study recommendations offered herein are:

1. MMDAs should select the “best” suppliers and partners for the revenue collection activities. The low bidder isn’t always the best bidder. Reputations, capabilities and past performance are all key factors in addition to price. Weighing these considerations would ultimately reduce the challenges and risk attracted in dealing with private agents.
2. MMDAs should monitor and assess performance during and at the end of the contract. Policies should be in place to keep politics out of the evaluation process. The contract should clearly identify milestones, expectations and output measures. Share performance information with everyone involved in the project. The MMDAs should have a comprehensive approach to monitoring staff employed by private companies.
3. MMDAs should state their expectations of the outsourcing agreement clearly. They should not lose sight of the fact that they are sourcing to accomplish two overriding objectives: (i) to have the sourced functions or processes performed at a higher level of quality by an experienced service provider, and (ii) to have those functions performed more cost efficiently because the service provider has much more scale and leverage than the MMDA outsourcing the function. Every aspect of a sourcing transaction should use these two objectives as a touchstone for the service provider’s obligations. They should begin every services agreement with a



very clear and objective statement of their facility's objectives as a buyer of sourced services.

4. Lastly, MMDAs should nail down your performance metrics clearly up front.

There are two broad categories of performance metrics that they should insist their service provider meets: first, broad, general performance quality standards and, second, specific, detailed specifications. Examples of the broader performance standards include commitments by the service provider to render the services in compliance with applicable laws and regulations, in accordance with prevailing or even "best practices" and in a manner that shows sustained improvement during the broader service term. Because sourcing relationships are often contracted to last for years, MMDAs might want to require the service provider to meet changing norms of performance standards

## **5.5 Recommendation for Further Studies**

Following from the findings of this study it is recommended that a further study be carried out to examine the relationship between automation (ICT) of revenue collection with the use of Point of Sales Devices (DPS) and the financial performance of MMDAs.

It is also recommended that more researches into the concept of outsourcing at the MMDA level be conducted considered wider cases and sample size. Other researchers may find out the relevant variables/factors that must be considered in the outsourcing process and the reasons for variance in the degree of gains made by the outsourcing MMDAs.

## REFERENCES

- Abraham, K. G. & Taylor, S. K., 1993. Firms' use of outside contractors: theory and evidence. *NBER Worker Paper*, 4468( 4468).
- Adu-Gyamfi, E., 2014. Effective revenue mobilization by District Assemblies: A case study of Upper Denkyira East Municipal Assembly of Ghana. *Public Policy and Administration Review*, 2(1), p. 98.
- Aguinis, H., 2014. *Performance Management*. 3rd ed. England: Pearson Education Limited.
- Ahoi, K., 2010. *Local Government and Decentralization in Ghana*, Ghana: s.n.
- Anon., n.d. *Historical development of Local Government*. s.l.:s.n.
- Atril, P. & McLaney, E., 2011. *Financial accounting for decision makers*. 6th ed. England: Prentice Hall.
- Axelsson, B. & Wynstra, F., 2002. *Buying business services*. New York: Wiley and Sons.
- Bahiigwa, G., Ellis, F., Fjeldstad, O.-H. & Iversen, V., 2004. *Rural taxation in Uganda: implications for growth, income distribution, Local Government Revenue and Poverty Reduction*, Kampala: EPRC Research Series.
- Baily, P., Farmer, D., Jessop, P. & Jones, D., 2005. *Purchasing principals and management*. 9th ed. s.l.:Trans-Atlantics Publications Inc..
- Barney, J., 1991. Firm resources and sustained competitive advantage. *Journal of Management*, Volume 19.
- Barney, J. B., 1999. How a firm's capabilities affect boundary decisions. *Sloan Management Review*, 40(3), pp. 137-145.
- Basu, R. & Wright, J. N., 2008. *Total supply chain management*, Elsevier: s.n.

- Bender, P., 1999. *Cashing in on competition*, s.l.: www.outsourcing-journall.com.
- Bendor-Samuel, P., 1998. *The brave new world of outsourcing*, s.l.: www.outsourcing-journal.com.
- Bhagwat, R. & Sharma, M. K., 2007. Performance measurement of supply chain management: A balanced scorecard approach. *Computer and Industrial Engineering*, Volume 53, pp. 43-62.
- Coase, R., 1937. The nature of the firm. *Economica*, 4(16), pp. 386-379.
- DACF, 2014. *The common fund Newsletter*. s.l.:Republic of Ghana.
- Domberger, S., 1998. *The contracting organization: a strategic guide to outsourcing*. Oxford: Oxford University Press.
- Fjeldstad, O.-H., 2006. *Local Revenue mobilization in urban settings in Africa*, Dar es Salaam: REPOA.
- Fjeldstad, O.-H., Katera, L. & Ngalewa, E., 2008. *Outsourcing revenue collection: experiences from Local Government Authorities in Tanzania*, Tanzania: Research on Poverty Alleviation.
- Fjeldstad, O.-H., Katera, L. & Ngalewa, E., 2009. *Outsourcing revenue collection to private agents: experiences from local authorities in Tanzania*, Tanzania: Mkuki na Nyota Publishers.
- Fjeldstad, O.-H. & Semboja, J., 2000. Dilemmas of fiscal decentralization. A study of Local Government Taxation in Tanzania. *Forum for Development Studies*, 27(1), pp. 7-41.
- Fjeldstad, O.-H. & Semboja, J., 2001. Why people pay taxes. the case of the development levy in Tanzania. *World Development*, 27(1), pp. 2059-2074.

- Franco-Santos, M. et al., 2007. Towards a definition of a business performance measurement system. *International Journal of Operations and Production Management*, 27(8), pp. 784-801.
- GAO, 1998. *Performance measurement and evaluation: definitions and relationships*, s.l.: United States General Accounting Office.
- Githinji, R. K., Mwaniki, M., Kirwa, K. J. & Mutongwa, S. M., 2014. Information and Communication Technology (ICT) on revenue collection by Kenyan Counties. *International Journal of Academic Research in Business and Social Sciences*, 4(11), pp. 242-243.
- Greaver, M. F., 1999. *Strategic outsourcing*. New York: AMACOM.
- Hendry, J., 1995. Culture, community and networks: the hidden cost of outsourcing. *European Management Journal*, 13(2), pp. 218-220.
- Horngren, C. T., Jr., W. T. H. & Oliver, M. S., 2012. *Financial & Managerial Accounting*. 3rd ed. New Jersey: Prentice Hall.
- Jackson, T., Iloranta, K. & McKenzie, S., 2001. *Profits or Perils? The bottom line on outsourcing*, USA: Booz, Allen & Hamilton Inc..
- Kakabadse, N. & Kakabadse, A., 2000. Critical review - outsourcing: A paradigm shift. *Journal of Management Development*, 19(1).
- Kotabe, M., 1998. *Efficiency Vs effectiveness orientation of global sourcing strategy: a comparison of U.S and Japanese multinational companies*, s.l.: Academy of Management Executive.

- Landajo, M. M., DeAndres, J. & Lorca, P., 2008. Measuring firm performance by using linear and non-parametric quantile regressions. *Journal of the Royal Statistical Society*, 57(2).
- Lyson, K. & Gillingham, M., 2003. *Purchasing and supply chain management*. London: Pearson Education Limited.
- McCarthy, I. & Anagnostou, A., 2003. the impact of outsourcing on the transaction costs and boundaries of manufacturing. *international journal of production economics*.
- Olowu, D. & Wunsch, J. S., 2003. *Local governance in Africa: The challenges of democratic decentralization*, s.l.: s.n.
- Prahalad, C. K. & Hamel, G., 1990. *The core competence of the corporation*, London: Harvard Business Review.
- Quinn, J. B., 1999. *Strategic outsourcing: leveraging knowledge capabilities*, 40(3): Sloan Management Review.
- Quinn, J. B. & Hilmer, F. G., 1994. Strategic Outsourcing. *Sloan Management Review*, 35(4).
- Rasiah, D., 2010. Theoretical framework of profitability as applied to commercial company's in Malaysia. *European Journal of Economics, Finance and Administrative Sciences*, Volume 19.
- Resnick, M. T., 2005. *Outsourcing federal tax collection*, Houston: Houston Business and Tax Law Journal.
- Saunders, M., Lewis, P., and Thornhill, A (2009). 'Research Methods for Business Students', 5<sup>th</sup> Ed.; England: Pearson Education Limited

Tashakkori and Teddlie, 1998. Handbook of mixed methods in the social and behavioural sciences. Thousand Oaks, CA; Sage

Van-Weele, A. J., 2005. *Purchasing and Supply Chain Management*. 5th ed. s.l.:Thomas Rennie.

## APPENDIX 1

### QUESTIONNAIRE

This study focuses on outsourcing revenue collection in Metropolitan, Municipal and District Assemblies in Ghana. The goal of this study is to identify how the performances of MMDAS are affected by the revenue collection outsourcing. The study is purely academic-oriented; as such I would like to assure you that your responses would not be used for any other purpose other than that stated herein. Objective Responses offered will be highly appreciated

Thank you very much for your willingness to participate in this study

Questionnaire ID: \_\_\_\_\_

#### 1.0 Background Information (Assembly and Respondent)

Name of Assembly.....

Portfolio of Respondent.....

##### 1.1

Gender	Tick
Male	
Female	

1.2 Age:.....

1.3 No of years spent with the Assembly: .....

##### 1.4

Academic qualification	Tick
Secondary School	
Diploma	
Bachelor Degree	
Masters Degree	
Other (please state)	

## SECTION A: EFFECTS OF OUTSOURCING ON PERFORMANCE

A.1 Please list the kinds of revenue items that the Assembly has outsourced to Private Agents

1	
2	
3	
4	
5	
6	

A.2 Would you consider the items listed in above as non-core activities of the Assembly?

- a. Yes                      b. No                      c. not entirely

A.3 Why were those particular revenue items in outsourced? (Tick as many as apply)

Why revenue collections are outsourced	Tick
Difficulty in collecting them	
Attitude towards payment	
Cost of collection	
Expertise of outsourced agencies	
Apathy on the part of revenue collectors	
Poor tracking of economic activities	
Poor Record Keeping	
Other (please state)	

	1	2	3	4	5	6	7
Op1. Increased in revenue mobilization	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Op2. Specialization in the provision of services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Op3. Access to skills and competency	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Op4. Geographical coverage	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Op5. Concentrate on core business operations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
RP2: FINANCIAL PERFORMANCE							
	1	2	3	4	5	6	7
Fp1. Revenue volume	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Fp2. Profit levels	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>



Fp3. Growth in revenue	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Fp4. Growth in profitability	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Fp5. Cash-flow stability	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

A.4 Using a scale of 1 – 7 [*where 1=much worse; 7=much better*], indicate KMA's performance upon outsourcing revenue collection

RP1: OPERATIONAL PERFORMANCE

### SECTION B: EFFECTIVE REVENUE COLLECTION REQUIREMENTS

B.1 Kindly use a 5-point scale measuring from “1=Strongly disagree” “3=Neutral” and “5=Strongly agree” to provide responses to the items under RGT

Requirements for effective revenue collection...	1	2	3	4	5
<b>rq1. Emphasis on cost effectiveness of revenue collection</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>rq1. Increased in revenue collection</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>rq2. Fairer revenue mobilization</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>rq3. Developing an ICT infrastructure to share data and information</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>rq4. Protection of security and privacy of tax payers</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

### SECTION C: CHALLENGES OF OUTSOURCING REVENUE COLLECTION

Using a scale of 1 – 7 [*where 1=strongly disagree; 4=indifferent; 7=strongly agree*], indicate the extent to which you agree or disagree to each of the following:

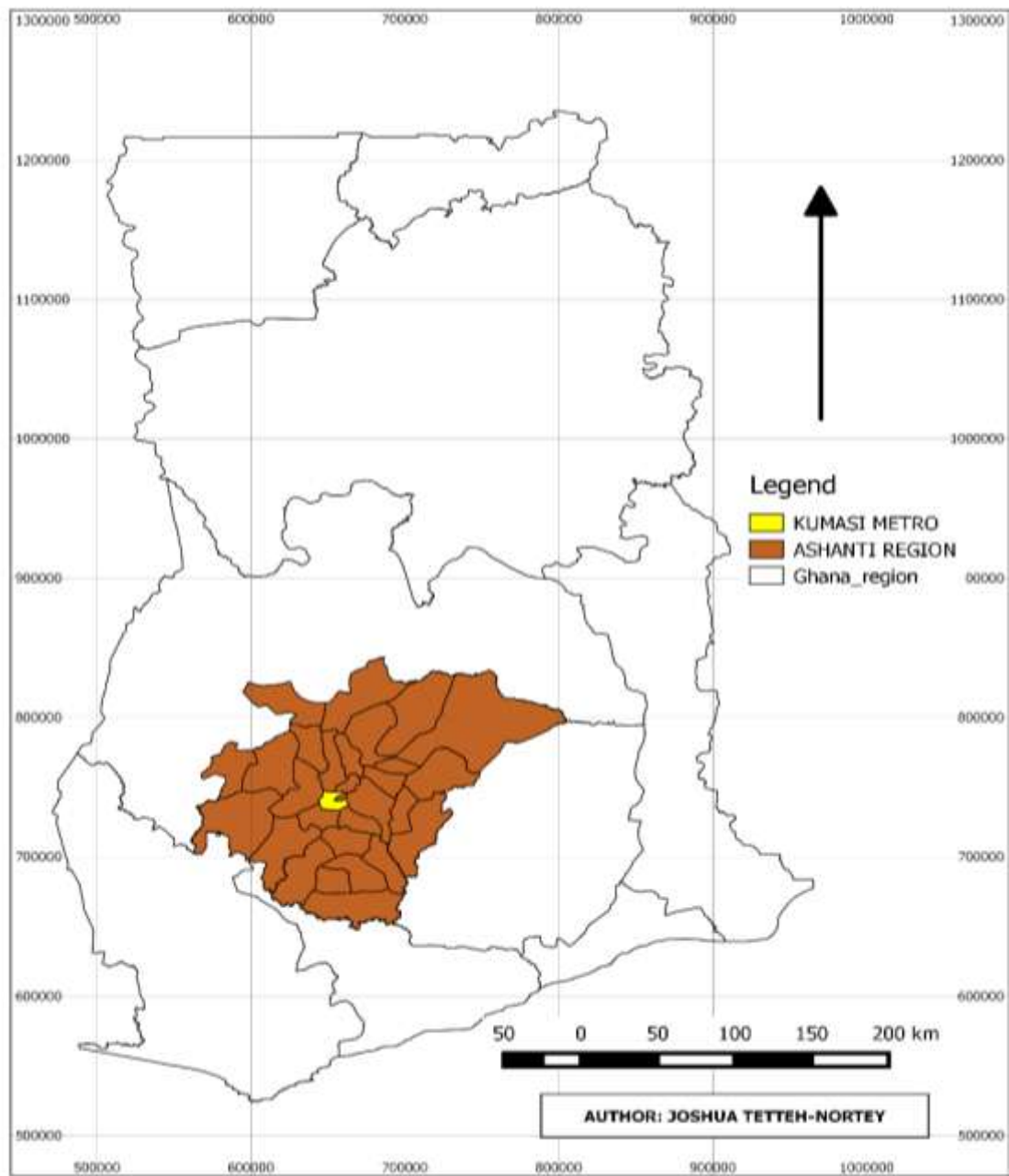
Challenges of outsourcing revenue collection...	1	2	3	4	5	6	7
1. High profit margins for revenue collection agents	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Overly aggressive collection strategies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Misrepresentation by private collections as public officials	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Problems with corruption	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Loss of control	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

## SECTION D: PROSPECTS OF OUTSOURCING REVENUE COLLECTION

### *Interview Guide*

Lead Statement	Information
Your comment on possible future success of outsourcing	
Assess the conduct of private revenue collections	
As a Staff linked to decisions related to outsourcing, what is your general perception of the whole revenue outsourcing strategy?	

**Figure 1 The Ashanti Region in the National Context**



**Figure 3: Map of Districts in the Ashanti Region**

